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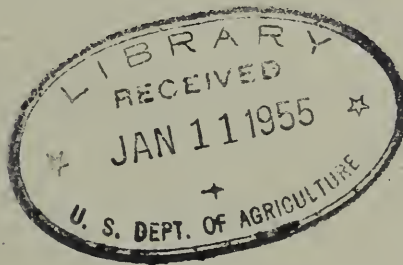
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UNITED STATES DEPARTMENT OF AGRICULTURE  
Production and Marketing Administration  
Grain Branch

Agricultural Price Support Policies  
with Special Reference to Grains



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Washington, D. C.  
October 1947



## FOREWORD

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Our agricultural price policy is established through 1948. That policy, as embodied in the Steagall legislation, commits the Government to maintain prices of the major farm products at not less than 90 percent of parity. The question as to the policies and program to be followed after current legislation expires at the end of 1948, and what new legislation should be enacted, will demand increased attention of Congress.

There is general agreement on the broad aims of agricultural policy. Agricultural policy should be so designed to promote the efficient use of our resources of production in producing a balanced abundance of agricultural commodities; to assure a level of agricultural prices which will permit an improving standard of living on farms and provide an expanding market for the goods and services of the non-farm population; and to attain these objectives in a democratic manner.

There is much disagreement, however, concerning the best methods of achieving these objectives.

In general, Government policy cannot be content alone with supporting farm prices by the use of public funds. Adequate, stable outlets at home and abroad must be found for the products of our farms if price support programs are not to collapse under their own weight.

Price support programs can serve an important purpose in protecting farmers against uncontrollable variations in production and against short-term fluctuations in the general price level. But, they cannot indefinitely protect agriculture against the necessity of adjusting itself to the long-time forces of supply and demand. Failure to plan for the necessary adjustments may result in our being forced to return at some later date to a restrictionist policy--a policy which, though sometimes necessary in emergency situations, runs counter to the deep-seated feelings of our country and farmers themselves.

The first essential of any sound program for agriculture must be maintenance of adequate outlets for a high level of production of foods as a whole. Success in maintaining high levels of employment in all sections of the economy will go a long way towards achieving this. However, a high level of industrial activity alone will not solve all of agriculture's major problems. Even under conditions of full employment, with accelerating technological programs in agriculture, surpluses of some farm commodities are likely to develop. The country will then be forced to choose between competing policies; either to restrict production or to expand consumption. It is reasonably assured that the country, if the alternatives are clearly put, would choose the latter course, even though it would involve the expenditure of public funds.

The following report explores briefly some of the general economic problems which farmers may be expected to face in the years to come, and



suggests policies and lines of action that might be considered in the development of new legislation.

Insofar as price policy is concerned, the ideas and suggestions here set forth aim at providing a basis for developing a sound national program for agriculture that will contribute to our regaining that flexibility and initiative of enterprise essential to a people whose material progress depends upon their ability to conquer new markets.

The specific program of price support as proposed for grains is designed to provide a positive basis for desirable production shifts as emergency conditions of world food shortages recede and farmers will be called upon to readjust their operations to normal market outlets.

The courses of action recommended must necessarily be considered as tentative. They are offered primarily to serve as a basis for discussion and further clarification of the complex issues involved.



## AGRICULTURAL PRICE SUPPORT POLICIES WITH SPECIAL REFERENCE TO GRAINS

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## AGRICULTURAL PRICE SUPPORT POLICIES WITH SPECIAL REFERENCE TO GRAINS

### I. Problems Which Agricultural Producers Will Be Facing

1. Problems expected to arise from increased volume and changed pattern of production. Total agricultural production in 1947 was one-third larger than average production of the five pre-war years 1935-39. The increase in production varied considerably among the several groups of farm products, with food grains leading the increase. Consequently, significant changes took place in the pattern of production. Food grain production doubled, meat and poultry products increased 47 percent, and dairy products increased 20 percent.

The great expansion in the total volume of production and the shift in the relative proportion of food grains and of livestock products, induced by the war and sustained by the abnormal post-war foreign rehabilitation needs, are expected to give rise to problems of readjustment. Unlike reconversion of industry from war to peace which already has been accomplished, reconversion of agriculture to normal peacetime markets has been put off by the protracted food crisis abroad.

Despite the fact that demand for practically all agricultural commodities continues at all-time high levels, we are approaching the time when a decline in foreign requirements will force United States producers to fall in line with a domestic pattern of market outlets. By the time the abnormal foreign demands have subsided, the urgency of food requirements of our own economy may have lessened. Agriculture will then find itself with a greatly expanded production capacity which has extended itself beyond the period for which special price support legislation had been provided producers to facilitate necessary readjustments in production.



Thus, the old problems of production adjustment, price supports, surplus disposal, and international trade, that have confronted us so forcefully in the period between the two wars, will not only be with us again, but their eventual incidence may be greater because of the changes that have been brought about during the war in agriculture itself and in the economic forces which the farmer must reckon with in the years to come.

The call for all-out production to meet the requirements of war greatly accelerated the long-time trend toward increased productivity per unit of resources of land and labor. High wages and acute shortages of labor stimulated increased mechanization of production, which, together with the more widespread use of improved varieties of seed and increased use of fertilizer and lime, led to larger and larger output per unit of resources. As compared with 1935-39, total agricultural production in the United States increased over one-third, with a farm population nearly 10 percent smaller, and practically no increase in the acreage planted.

The war-induced expansion in agricultural production capacity is not only going to be permanent, but may be expected to progress. This is because the increase was due largely to new and more efficient methods of agricultural production, especially crop production. As farmers have been able to expand production and efficiency in spite of wartime shortages of labor and machinery, fertilizer, and other materials, it seems reasonable to assume that crop production will be expanded still more under conditions of plentiful supplies of equipment, experienced help, and further improvements in methods and techniques of farming. When better livestock



and better methods of feeding are added to the above, we will have the basis for continued large production, possibly even greater production of livestock and poultry products.

Only a shortage of farm workers, in the absence of unfavorable weather, would reduce agricultural production below present levels. Such a shortage is likely to appear only in times of high industrial activity--at a time when there is a strong demand for farm products. In contrast, farm workers are likely to be abundant in times of low industrial activity. It is, therefore, probable that insofar as there are fluctuations in agricultural production that are independent of weather and improved production methods, the high production is likely to be during periods of low demand for farm products, and the low production is likely to come during periods of high demand for farm products.

## 2. Implications of strengthened position of labor upon agriculture

A further permanent change brought about largely as the result of the war is the greatly strengthened position of organized labor. As compared with 1935-39, average weekly factory wages have doubled, while as compared with 1909-13--the parity base period--they have increased fourfold. The higher wages not only have directly and indirectly raised the cost of agricultural production, but have increased marketing and distribution costs which essentially consist of labor. In a period of declining demand for agricultural commodities, marketing charges will be maintained at a relatively high level, as labor is unlikely to relinquish the gains it has made during the war and post-war period.

The fact must not be lost sight of that the all-time high share of the consumer's food dollar received by producers during the war and the



immediate post-war period has not been the result of increased efficiency in marketing and distribution, but reflects the more rapid rise of prices received by farmers as compared with marketing costs. As these trends will be reversed in a period of declining prices, farmers will receive a decreasing share of the consumer's food dollar, and the costs of things farmers buy will rise relative to the prices of commodities he sells. This situation, when it develops, will again give rise to the so-called farm problems. The failure of marketing costs to keep pace with declining prices of agricultural products constitutes one of the principal causes of the relatively severe effects of a downtrend in the general business activity upon agriculture.

Thus, the changes within agriculture and in the economic forces confronting agriculture that have been brought about by the war are in the direction of intensifying the problems which agriculture will be facing.

3. Indefinite postponement of reconversion to normal market outlets. Agriculture is still in a war economy and reconversion to a normal pattern of peacetime requirements lies still ahead. Farmers deserve and must receive protection equal to that which has been given to other business groups in reconverting to peacetime production. The wartime diversion of industrial manufacturing from normal lines into special and temporary fields of production has worked to the advantage of the industries in that it enabled them to make the necessary expansion in full knowledge of its temporary character. The contracts secured from the Government enabled them to gauge output exactly and dispose of it at a predetermined price. This diverting of production from normal lines



served to reduce the manufacture and stocks of goods ordinarily demanded to an exceedingly small volume, so that after the war industry was confronted with insistent demand for goods of which the shelves and store-houses were practically empty.

In sharp contrast to conditions in industry, the war demands called for substantially the same products from the farmer that he was accustomed to produce. However, they were needed in much larger volume than normal domestic and foreign outlets required. These abnormal demands were sustained after the war by urgent foreign relief and rehabilitation needs. When these needs begin to taper off, farmers, unlike industrial producers, will have no alternative lines of production to which they could turn and find for their products an eager consuming public such as confronted industry when it shifted from war production back to the production of civilian goods.

4. Prospective effects of eventual decline of foreign requirements.

Although the existing critical food situation in large areas of Europe is expected to extend through another year or two, before long distinction will have to be made between needs and effective demand. Need in itself is not a factor in the market unless the means of purchase are made available for its satisfaction. It will become increasingly important not merely to consider stated or estimated foreign "requirements" as a basis for appraising prospective developments in export trade. The export outlook over the next few years depends upon the changes in financial conditions under which importing countries can obtain United States products. Foreign countries will have to increasingly depend on their exchange resources or on dollar loans for the payment of imports from the United



States. Even though international loans will enable countries in balance-of-payment difficulties to import critically needed food, in the long run the volume of United States exports will be determined by our willingness to accept imports as payment for exports.

American agriculture, therefore, has a real and important interest in the economic rehabilitation of Europe. As long as the productive capacities of these countries are not restored, they will have little to sell with which to import needed food, and they will be forced to resume previously attempted policies of becoming self-sustaining. Although competition in world trade will again become an important factor as the requirements of importing countries decline, the fact that trade controls in these countries will likely be in effect for a longer period than controls over exports in the United States, will have an important bearing on the future pattern of international grain trade.

During World War I, total domestic exports from the United States rose to a high of about 8 billion dollars in the year beginning July 1919. Of this total, 48.4 percent were exports of agricultural products. By the year beginning July 1921, total domestic exports had fallen to 3.7 billion dollars, but the percentage of the total that were agricultural products had risen to 51.8 percent. After 1921, total domestic exports tended to increase, and for the year beginning July 1928, were almost 5.3 billion dollars. But, for that year, the percentage of total exports that were agricultural exports had fallen to 35.0 percent.

These data suggest that for a short time immediately after the end of the war, the countries involved in the conflict want food, but that agricultural production in such countries recovers much more rapidly than



industrial production, and the countries quickly shift from the importation of farm products to the importation of factory products.

There is, of course, no assurance that the events following World War II will continue to parallel those following World War I. United States exports of the 1920's were financed, in considerable measure, by credits--by loans financed in the United States. When the lending stopped, exports rapidly diminished and soon after the rate of industrial production in the United States also declined.

The United States is not the only source of surplus grains, and when foreign needs fall off, price competition will again make itself felt. Unless world trade in wheat is shared by the principal exporting countries through international commodity agreements, lower prices in exporting countries competing with the United States will cause the volume of United States exports to decline more sharply than total world wheat trade. Although the international wheat agreement as proposed aims at larger world wheat consumption, decreased incentives to high-cost production, and increased exports from areas which are equipped to produce most economically, there is disagreement among economists as to the effectiveness of the provisions of the agreement in attaining these objectives. The significance of an international wheat agreement to United States producers would be more in the direction of stabilizing demand through assuring minimum export outlets (through export quotas based on historical percentages) rather than stabilizing world wheat prices.

Although world requirements for imported foodstuffs will be on a large scale for some time to come, indications point to a slowing down in the growth of demand relative to the acceleration in production within



the next few years. The forces responsible for this pattern of development are hidden temporarily by current conditions of extreme urgency of world import needs and by the high levels of domestic consumer demand.

5. Problems of adjustment. It is difficult to contract total volume of agricultural production in response to shrinking markets and declining prices. The basic differences in the organization of agriculture and industry are the chief reason for the failure of agriculture to reduce its output in time of falling prices. In the great majority of agricultural products, the costs which vary directly with the volume of production are smaller than the costs which are independent of volume of production. In periods of declining prices it may, therefore, be more profitable to maintain the volume of production than to reduce it. While high and rising farm prices tend to increase total agricultural production, low or falling prices do not necessarily tend to decrease it, at least not as quickly as in industry. In agriculture the submarginal producer persists for a long time under conditions of declining prices. In industry, when there is a tendency for production to outrun demand, equilibrium is quickly restored by the reduction of output and the disappearance of the marginal producer. In agriculture, even when the submarginal producer has deserted his farm, the land still remains. In fact, its potential productive capacity increases.

Although the eventual readjustment of agriculture to normal domestic and foreign markets will be accompanied by declining prices, the magnitude of the readjustment in total volume of production needed to stabilize prices will not be as great as the increase in total production would suggest. While total agricultural production increased about one-third during the war, our population increased 8 percent and per-capita



food consumption about 17 percent. Thus, our domestic market is one-fourth larger than it was before the war. But little contraction in over-all agricultural output would appear to be required to maintain a balance between production and consumption, provided that a high level of industrial activity and employment can be maintained in our domestic economy.

There is no consensus of opinion regarding trends in factory employment, wages, and national income. However, a downtrend in general business activity, if and when it occurs, is unlikely to give rise to measures designed to maintain a production-consumption balance in agriculture through restricting the volume of production. Such programs would be highly unpopular. The war has served to bring home the fact that a nation is wealthy and strong only to the extent that it produces. In a national economy of balanced abundance there should be no need to abridge the farmers' right to produce. Every farmer increasing the output of food should be assured that a corresponding increase in the output of industrial production will solve the problem of the exchange of the farmers' products for the goods and services produced by the other groups in our economy. If we all produce fully and freely exchange the products of our labor with each other, there must result an ever-increasing richness in economic life.

Available evidence suggests that all the food produced in this country would be needed if all of our people were to be well fed. But it can hardly be held that it is the farmer's responsibility to produce the products to feed the people who are not, in turn, producing the goods the farmers want in exchange for their products. It may be said that the fundamental post-war problem for the farmer is to prevent his greatly expanded productive capacity from falling under the control of anti-pro-



ductive policies which will prevent its full use. Farmers hate to restrict production. But they can be driven to it, and the restrictionist policies and actions of entrenched business and labor have in the past compelled them to do likewise and adopt the same policy.

Attempts at maximizing farm income through restricting production must give way to policies designed to maximize demand through removing restrictions to consumption.

6. General economic policies. The full recognition that prosperity in the non-agricultural segments of our economy and a flourishing agriculture are interdependent conditions is fundamental to the development of agricultural programs of a truly national character. The validity of this recognition is unaffected by the argument as to which factor is cause and which is effect in the reciprocity of economic conditions in agriculture and in industry. Since in an economy of full employment the forces that allocate our resources of labor into the production of goods which are most needed tend to maintain a balance between agricultural production and consumption at satisfactory returns to producers, the fundamental approach to the problem of stabilizing farm products against fluctuations in demand is to stabilize the whole economy at a high level. An ever-growing, expanding economy is both a goal in itself and a necessary condition for the achievement of full employment. The maintenance of high employment is being accepted as the basic economic responsibility by both government and business. The Federal government has become increasingly committed to a policy of initiating active and direct measures to maintain our national income at levels that insure reasonably full employment.



Although the national goal of full employment and raising of living standards is much broader than agricultural policy as such, any program that is successful in maintaining prosperous conditions through the general economy will be more effective in maintaining a production-consumption balance than measures designed to stabilize returns to farmers against declining demand through supporting prices.

However, general economic stabilization cannot be relied upon to be attained. In fact, the cyclical nature of the ups and downs in general business activity is characteristic of our free enterprise system. Plans for over-all agricultural policies should, therefore, be prepared ahead of time so that farmers may be assured equality of economic security and opportunity with the more strongly entrenched groups in our economy when the impact of shrinking markets and declining consumer demand upon agriculture makes itself felt.

The problems which will demand early attention, however, are unlikely to be those arising from the basic income protection intended to be afforded agricultural producers in periods of general price declines. When the food crisis abroad has passed, United States farmers will find themselves confronted with production maladjustments as between farm commodities. Policies must be developed that aim at correcting these maladjustments promptly and effectively as delay will only make the process more difficult later on. Even though under conditions of high employment the need for over-all reductions in agricultural output will be greatly minimized, burdensome surpluses of some agricultural commodities are likely to develop in the face of unsatisfied needs for others; and these surpluses will be first and principally in food grains--the commodities for which domestic



demand cannot be significantly increased through lower prices or other consumption incentives.

Government policy needs to be reexamined to insure that it operates to effectively meet these problems when the retrenchment of the abnormal post-war demands begins to make itself felt. Our agricultural price policies must be planned so that full use is made of the greatly increased capacity to produce. If this is done, farmers may look forward to a minimum of dependency upon public funds for programs to balance production with requirements and to maintain reasonable stability of prices.

## II. Appraisal of Existing Price Support Legislation

1. Performance of Steagall legislation. The question of formulation of agricultural price policies will assume increasing importance with the approaching termination of existing wartime legislation. In order to develop new legislation that effectively meets the objectives of agricultural policy, two important questions will have to be raised: (1) Has existing legislation proved to be effective in terms of its objectives; and (2) could existing legislation, if extended or made permanent in its essential provisions, be considered adequate to deal with the problems expected to arise.

A review of the accomplishments of the price support programs carried out under the Steagall legislation shows that these programs were effective in terms of their objectives. Although price supports were, with a few exceptions, not called into play to support prices which generally were maintained above Government loan rates or purchase prices by the general strength of demand, the level and pattern of support prices proved highly effective in inducing farmers to use the resources of production so as to



obtain maximum output of the commodities most urgently needed. Farmers readily responded with broad and costly crop shifts within a virtually constant crop acreage to adjust their output to a pattern of needs which was very different from that of the pre-war years. The establishment of yearly production goals and the development of programs to assist in their achievement played an important role in the attainment of needed changes in production. The close relationship between production goals and price supports as we have known during the period of Steagall legislation, represents a most effective organization of efforts to aid farmers in adjusting their production and marketing to changing requirements.

The delay in the reconversion of agriculture to a normal pattern of production and in restoring a balance between soil-depleting and soil-conserving crops will call for a greatly strengthened outlook program to guide farmers in the planning of their operations. If production goals are to serve as effective production guides, the establishment of support prices must reflect a pattern of production incentives that, in turn, reflects the desired action on the part of producers. Price support programs consistent with a production pattern to be developed should be an integral, inseparable part of an agricultural goals program.

2. Present techniques of support operations and their suitability for permanent programs. The methods employed in carrying out price support programs under present legislation are non-recourse loans and purchase agreements.

The commodities placed under loan, while not a marketing problem to the Government until delivered in satisfaction of the loans, have tended to stabilize prices against seasonal fluctuations of production. When a considerable proportion of any crop is placed under loan, marketings are

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more orderly in that gluts and shortages are avoided. Loans not only serve to place the farmer in a stronger bargaining position, but contribute to greater price stability, which, in turn, narrows necessary margins in the different stages of marketing and distribution.

The delivery of commodities to the Government in satisfaction of loans did not give rise to serious problems of storage and disposition. During the war many of the delivered commodities could be used for export programs. Commodities not required under such programs were held for sale into regular trade channels or diverted to other uses. Prices at which such stocks were disposed of were generally at cost or market price, which ever were higher.

Under the corn loan program beginning in 1933 and through 1946, a total of approximately 1,223,000,000 bushels were placed under loan and 337,000,000 bushels were delivered in satisfaction of the loans. The marketing of this corn delivered to the Government was accomplished by making sales to feeders, dealers, and processors of food and industrial products. The services of agricultural conservation association committees were utilized in storing large amounts of the corn in steel bins in the areas of production. These committees also assisted in making local sales and in arranging for shipments to fill orders from other areas.

Large disposal programs in connection with price support operations also resulted from the delivery of some 724,000,000 bushels of wheat under the wheat loan program from 1938 through 1946, covering total loans of about 1,698,000,000 bushels. Most of this wheat was disposed of as feed under the feed wheat program. Some of the wheat was made available for alcohol production and the remainder was exported in 1945 and 1946. The

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wheat was stored for varying lengths of time in terminals, country elevators, and in steel and wooden bins.

In 1947 a new method of carrying out price support commitments was developed by the Grain Branch of the Production and Marketing Administration and made available to producers in addition to the use of non-recourse commodity loans which had been employed since 1933. Under this new method, identified as "The Purchase Agreement," the Commodity Credit Corporation offers to purchase from producers eligible for loans, warehouse receipts on the commodity at the applicable loan value during a 30-day period immediately following the maturity date of the loan or, in the event loans are called, within the 30 days immediately following the date loans are called.

Purchase agreements are designed to be complementary to commodity loans. They are available to any eligible producer who does not desire to complete a loan or who cannot meet the storage requirements for a loan. In effect, the purchase agreement is essentially identical to a loan application which is not completed or disbursed until physical delivery of the commodity is made to CCC.

A purchase agreement program has distinct advantages over a loan program for the producer who does not need the money or who has not stored or who cannot store his commodity in eligible storage or who is not willing to mortgage or surrender his collateral as required by the loan provisions. A loan program, on the other hand, ideally meets the needs of the producer who desires the proceeds of the loan and can meet its provisions. The combined features of commodity loans and purchase agreements provide in themselves a positive price support program which meets the needs of all producers and serves the public interest by encouraging orderly marketing of crops.

There is a great deal of interest in the subject of the

and it is a very important one.

The first thing that I noticed when I stepped out of the

door was the cold air. It was a relief after the heat of the

car. I had been sitting in it for an hour and a half.

The car was a very nice one. It was a dark color and

it had a very comfortable interior. I was very happy to

have it. It was a very good car.

I had been looking for a car for a long time. I had

been looking for a car that was reliable and

that was also a good value for the money.

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The purchase agreement has many advantages to the Government. There is no expense in auditing, filing, and accumulating statistics until delivery is actually made (delivery date coincides with applicable loan maturity), and then only with respect to accepting delivery and making disbursements. Under loan programs, it is necessary to inspect, file documents and mortgages, accumulate statistics, release reports, reinspect farm-stored commodities, and maintain continuous contact with every borrower, without regard to past experience which shows that only a small percentage of loans ever result in payment by delivery. Actual delivery pursuant to a purchase agreement involves identical detail of operation as required under loan delivery.

Administrative costs in connection with purchase agreements will be very minor in State and county offices, and no expense whatever in CCC area offices in case delivery is not made. In case of delivery, the total cost is estimated at less than half of the expense involved with loans. For wheat, with a large loan program (such as for the 1942 crop) administrative costs were approximately 2 million dollars, paid by producer fees to county committees, and an additional preliminary cost to CCC of 1 to 2 million dollars. Because disbursement is made only on the basis of the quantity and quality actually delivered, there can be no conversions, deficiencies, or insurable losses to collect or negotiate under purchase agreements. Even though losses have been extremely light, administrative costs of correspondence, personal contacts, and legal expenses occasioned in making collections have been fairly substantial. It is estimated that the implementation of purchase agreements in addition to commodity loans will render price support programs more effective, will greatly increase



producer participation, and will result in annual savings in administrative expense of 2 to 5 million dollars on price support programs for grain in an average year.

In addition to the monetary saving to both producers and Government, other far-reaching benefits will accrue from a program which, while offering positive price support, requires maximum responsibility on the part of the producer in conditioning the commodity for storage, in storing, and in marketing the commodity through normal competitive channels. The technique employed permits most of the grain in storage to remain in the best place for it--in a crib on the farm where it was grown and in the hands of the man who produced it. The producer, because no funds have been advanced, will continually be alert for sales possibilities, will provide personal supervision in protecting the commodity against deterioration and loss, and only in the event of actual surplus conditions will he decide to make a delivery and sale to CCC.

Procedure for participating in purchase agreements will require that a producer sign a simple purchase agreement, which does not bind him in any manner, with the county committee for the county in which his farm is located. The agreement must be signed prior to the closing date established for the particular commodity loan program. The agreement will be evidence to the producer that he may deliver and sell any quantity of his commodity during the 30-day period immediately following the maturity date for loans and receive payment at the full applicable loan rate. Delivery must be made at an approved warehouse or in accordance with instructions issued by the county committee. In the case of wheat and flax, he will receive a storage payment, provided all warehouse charges, except the receiving charge, have been paid. If the charges have not been paid and

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry must be clearly documented, including the date, amount, and purpose of the transaction. This ensures transparency and allows for easy auditing of the accounts.

Secondly, the document outlines the procedures for reconciling the accounts. It states that a monthly reconciliation should be performed to compare the internal records with the bank statements. Any discrepancies should be investigated immediately and resolved to prevent errors from accumulating.

Thirdly, the document addresses the issue of budgeting. It advises that a detailed budget should be created at the beginning of each fiscal year. This budget should serve as a guide for all financial decisions and help in monitoring the organization's spending throughout the year.

Finally, the document concludes by stressing the need for regular communication and reporting. It suggests that the management should receive regular updates on the financial status of the organization. This will enable them to make informed decisions and take corrective actions if necessary.

remain as a lien held by the approved warehouseman, CCC will assume all of the charges but will not pay the storage allowance.

Perhaps more significant than the greater adaptability of price support programs in meeting the individual producer's needs and the lower cost of administration effected through purchase agreements, is the fact that there is no need for the Government to assume the lending and storage functions essential in the carrying out of loan programs. Since producer-stored commodities under Government purchase agreements are sound collateral for loans, private business may perform the credit services to agriculture, which under loans have to be assumed by the Government.

The extent to which purchase agreements will replace or supplement commodity loans cannot be estimated at this time. The device of purchase agreements provides in itself a fully effective method of carrying out price support programs. For some commodities, as dry edible peas, only purchase agreements are available for price support, and producers of other commodities, notably cover crop seeds, have endorsed deferred action purchase programs in preference to loan programs as price support measures.

Eventually purchase agreements may replace loan programs for all commodities. Since a substantial portion of the sales of the grains and other farm commodities to the Government have been due to lacking or improper storage facilities on the part of the seller, general adoption of the purchase agreement method of price support would force the construction of adequate storage facilities at or near the points of origin, which would be highly desirable.

3. Problems arising from present parity standard. Existing Federal legislation relating to price supports for agricultural commodities is



framed in terms of parity. All Federal statutory provisions for direct as well as indirect agricultural price supports aim at the attainment of certain price objectives which are expressed in terms of parity. As defined in the Agricultural Adjustment Act of 1938, parity is that price for the commodity "which will give the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodity during the base period." The base period in the case of all basic agricultural commodities except tobacco is the period August 1909 to July 1914. A concept of "comparable prices" was introduced into legislation with the Steagall Amendment; comparable prices have been established for soybeans, peanuts for oil, and dry edible peas.

That the parity standard, as defined by law, is neither an accurate measure of the economic status of farmers nor a workable objective for agricultural price policy can be easily and convincingly shown. In fact, there is almost complete agreement that the present parity formula needs to be revised.

One of the principal objections raised against the present parity formula is that it freezes the price relationships as between agricultural commodities in a pattern which is some 30 years old. There have been significant changes in costs of production as well as in trends of demand since 1909-14. A considerable decrease has taken place in the labor requirements for wheat and corn, and to the extent that these changes in labor requirements--after making allowance for the increased cost and upkeep of machinery--represent changes in cost of production, the parity formula is not only an inaccurate measure of the relative profitability of grain production as compared with other agricultural endeavors, but it is unfair to assure producers of all agricultural products the same



percentage of parity. The man hours required to produce 100 bushels of wheat have been cut in half since World War I, and comparable declines were noted in the cost of producing corn, while the labor required to produce a unit of livestock products has actually increased.

Since parity prices do not reflect the changes that have taken place in production costs of different farm commodities, prices received by farmers expressed in terms of percentages of parity tend to convey a distorted picture of the relative profitability of one type of farm enterprise as compared with another. For example, in September 1947, farmers were reported to have received 116 percent of parity for wheat sold off farms and 136 percent of parity for butterfat. This would suggest a more favorable status of dairy producers relative to growers of wheat. In reality, the relative profitability of wheat growing as compared with dairying at existing price relationships would be more accurately indicated if the figures of 116 percent and 136 percent for wheat and butterfat, respectively, were reversed.

Parity prices, as they are now calculated, not only reflect an outdated production pattern, but also a pattern of demand which existed some 30 years ago. Changes and trends in demand for a number of foods are widely recognized. Since 1909-14, per-capita demand for cereals has been declining annually, while consumption of fresh fruits and vegetables rose sharply. In the 1930's, per-capita consumption of meat fell significantly and this was accompanied by a further sharp rise in the consumption of vegetables and citrus fruits. Such trends do not merely reflect changes in consumer tastes, but essentially result from changes in consumer incomes and relative prices of competing or complementary commodities.



Foods as a group are predominantly competing commodities in consumption. Price supports based on parity, as it now stands, would, if called into operation, not only misdirect production but also misdirect consumption.

The inadequacy of parity prices, as defined by law, as a basis for measuring price relationships of one farm product with another makes the attainment and maintenance of parity prices an unworkable objective of agricultural price policy. The fact that no major difficulties were encountered to date in carrying out the provisions of the Steagall Amendment does not speak for the practicability of the present parity concept as a basis for long-time agricultural policy. The provisions of the Amendment calling for price supports at not less than 90 percent of parity made it possible to detach actual support and purchase prices entirely from parity considerations and thus overcome one of the most objectionable difficulties of parity prices as defined by law. The fact that wartime demands maintained prices for most farm products above parity levels enabled the Government to develop a flexible pattern of support prices ranging from 90 percent of parity to 180 percent of parity or higher, depending upon the urgency of requirements to be met by increased production of the particular commodity. During the period of price controls, subsidy payments had to be extensively resorted to to compensate for the failure of parity prices to reflect actual production cost relationships as between the different commodities.

The abnormally large post-war food requirements, which are indicated to extend beyond the termination of the Steagall Amendment, have definitely removed the likelihood for the Steagall legislation being put to a test in meeting its purpose of effecting orderly reconversion. The original



purpose of the Amendment, to provide a financial cushion for farmers in effecting an orderly return to peacetime production levels, appears to have been lost sight of in proposals to use this legislation as the basis for long-time farm policy.

4. Impracticability of extension of Steagall price support provisions; inadequacy of Agricultural Adjustment Act of 1938; desirability of new permanent legislation. The Steagall legislation which directs that prices of the major farm products be supported at not less than 90 percent of parity or comparable prices will expire on December 31, 1948. The legislation was designed to encourage a large output of farm products needed in the war effort and to protect farmers from a possible sharp decline in prices while readjusting their operations from war to peace.

The question whether existing legislation should be extended beyond 1948 cannot be decided on the basis of determining whether or not it has proved satisfactory to date. So far, the objective of orderly reconversion has not been called into play, and indications are that foreign and domestic food requirements will continue sufficiently strong through 1948 to obviate the need for important readjustments in production during the remainder of the so-called Steagall period.

Extension of existing legislation with its unrealistic parity concept and rigid support price relationships as between the different crops and livestock products would, in a period of general price declines, defeat the very purpose for which an extension is proposed. When our production programs will have to be moderated to less than maximum output, the price support provisions embodied in the Steagall Amendment would, if literally carried out, operate in the direction of stimulating the



production of commodities for which demand is declining and discourage farmers from shifting to the production of commodities for which increased output will be desirable.

To maintain prices at the pledged levels, loans and purchase programs would have to be carried out on an increasing scale, leading to the accumulation of surpluses which, in the case of perishables, would have to be largely destroyed. In the case of staple products, as cotton and grains, the feasibility of their storage would only serve to postpone the demonstration of failure.

There would be progressive unbalance between the pattern of output and the pattern of needs until the inadequacy of the legislation to cope with the problems of readjustment to normal markets would reach such proportions as to make the institution of drastic production control measures imperative. Neither producers nor the consuming public would long tolerate programs that would encourage the raising of surpluses which would have to be diverted into wasteful uses or destruction in the face of unsatisfied demands for other foods which could be produced instead. The incentives to produce should reflect the intensities of needs in order to provide for the socially useful employment of our productive resources--in the light of which all Governmental economic policies must be judged.

Extension of the Steagall legislation as it now stands would mean that the job of readjusting agriculture to normal conditions would not only remain undone, but would be directly impeded. Our export commodities would be priced out of the world market and export subsidies would have to be resorted to, lending to retaliatory measures, international friction, and restraint of world trade. The increasing pressure of surplus supplies



on the domestic market would necessitate the eventual return to rigid production control measures. The maintenance of parity prices at the expense of volume of output would not only offset the resulting income benefits to producers--as has been demonstrated in the past--but such measures would be incompatible with an economy of full production. Farm leaders, congressmen, and agricultural economists are essentially in agreement that agricultural price legislation must be compatible with a national policy of unrestricted utilization of our resources of production.

The Steagall Amendment expires on December 31, 1948. Unless new legislation is enacted, agricultural price support programs will essentially revert to the Agricultural Adjustment Act of 1938. Under this Act, price support programs are mandatory on wheat, corn, cotton, and peanuts under certain conditions. The loan rates for wheat and corn range from 52 to 75 percent of parity. The rates for corn vary inversely with surplus production over normal requirements according to a formula specified in the Act. Loans may be made on other commodities, however, with the amounts and terms to be determined by the Secretary of Agriculture as approved by the President and the Commodity Credit Corporation.

To protect the Government against having to support prices regardless of volume of production, farmers have a responsibility to cooperate with the Government in promoting orderly production and marketing. The Agricultural Adjustment Act provides that in years when the supply of any of the basic crops becomes excessive, marketing quotas shall be in effect for that crop. If marketing quotas are disapproved by more than one-third of the producers voting in referendum, no loans shall be made to any producer on that particular crop. When acreage allotments and marketing

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quotas are in effect, the loan rates are available only to cooperating farmers.

That the Steagall legislation, extending price supports to non-basic commodities and raising the support levels to at least 90 percent of parity ( $92\frac{1}{2}$  percent for cotton) or comparable prices, was not intended to support prices for unlimited production during the reconversion period, has been pointed out by the Department of Agriculture:

"The Steagall Amendment provides for continued price supports for a two-year period after the war when the need for increased production will probably have decreased considerably. Since the purpose of the two-year provision was to enable farmers to readjust their production to normal ....., it is reasonable to conclude that production-adjustment conditions related to changes in production may be imposed."

This would make the position of the so-called Steagall commodities comparable to that of the basic commodities, on which loans at full rate are made only to cooperating producers when marketing quotas are in effect. Such production-adjustment provisions have actually been imposed under the Steagall legislation in connection with the potato price support program for 1947.

Reconversion of agriculture to normal peacetime conditions has yet to take place. When the food crisis abroad has subsided, the period of Steagall legislation provided by the Congress to protect producers during reconversion will have expired. This consideration has given rise to agitation for special legislation extending the essential price supports

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for basic as well as non-basic commodities as authorized under the Steagall legislation for another year or two.

There are a number of reasons why an extension of the Steagall price support provisions would be uncalled for even if the legislative rigidities in the administration of support programs could be eliminated by amended legislation.

The intent of the Steagall legislation was to protect producers of the farm commodities as to which an expansion of production for war purposes was required, against sharp declines in prices subsequent to the termination of the war. The war requirements called for substantial increases in the production of meat and dairy and poultry products, and as compared with 1935-39, the output of these products increased about 50 percent. The end of the war failed to result in the contraction of demand for most of the Steagall commodities, despite the fact that exports dwindled to insignificant proportions as compared with the amounts of these commodities shipped overseas during the war. The post-war maintenance of high prices of livestock and poultry products reflected expanding domestic consumer demand for these foods. The questions as to how long the present high levels of domestic consumer demand can be maintained, and the adjustments which agricultural producers will need to make when industrial activity and employment fall off, cannot be considered as reconversion problems deserving of special legislation. The post-war maintenance of wartime levels of production of most of the Steagall commodities has been sustained by domestic market demand and not by Government programs subject to sudden termination, which would entitle farmers to special protective legislation. In fact, the unanticipated



high level of domestic consumer demand for livestock products is causing the Government considerable concern in that the strong incentives to heavy feeding operations in the face of substantially reduced supplies of feed grains make the carrying out of the grain export commitments increasingly difficult.

The position of grains with respect to the question as to whether existing price supports should be continued, is quite different from that of livestock and poultry products. The large-scale post-war Government grain export purchases made it necessary not only to put off readjustments in production, but to push production of food grains to levels still farther out of line with normal market needs than production during the war. As compared with 1935-39, production of wheat, for example, increased 90 percent, and the Government is asking producers to further expand the acreage planted to wheat in 1947-48. Since the grain export program is the only factor in sustaining a pattern of production which could not be supported by the needs of domestic consumers and normal export requirements, the Government has a responsibility to protect producers against the unstabilizing effect of an eventual shrinkage in exports. As long as foreign food requirements continue urgent and our Government commits itself to meet these requirements, relatively high price supports for grains will be necessary to induce farmers to maintain maximum levels of production. Reversion of price support legislation for grains to the provisions of the Agricultural Adjustment Act of 1938 would not enable the Government to extend existing loan and purchase agreement programs for grains beyond 1948. While grain prices may be expected to hold substantially above 90 percent of parity for some time after the expiration



of the Steagall period, the significantly lower support levels under the Act of 1938 would afford producers inadequate protection against the eventual reappearance of competition in export trade, which producers of wheat, especially, are ill-prepared to meet. The mere setting of production goals calling for all-out effort towards obtaining further increases in production are likely to be ineffectual unless adequate price supports are provided. New or revised legislation would, therefore, be required.

### III. Alternate Proposals

Parity prices based on the 1909-14 period, if established as market prices under the operation of loan and purchase agreement programs, would freeze intercommodity price relationships into an outdated pattern, resist production changes which are in the long-time interest of farmers and consumers, and build up surpluses of commodities the production of which would, in effect, be subsidized at the expense of products that are needed.

In order to deal with the resulting maladjustments, programs of subsidized exports or diversions into lower uses, or programs of restricting production or marketings of commodities in surplus would have to be resorted to. Such programs would either require large expenditures of public funds or call for severe regimentation of a large proportion of farmers. The difficulties experienced with production controls in the past would be aggravated by the production shifts induced by the war and the abnormal post-war requirements. A program of forcible restriction would mean departure from a policy of full utilization of our productive resources. It would be a negative policy when what is needed is a positive



policy of adjustment. Above all, production controls, if effective, would maintain farm prices at the expense of farm income--an infraction of the fundamental purpose\* of price support legislation.

To overcome the shortcomings of existing legislation, a wide range of proposals of new or revised price support policies and programs for agriculture has been advanced by farm leaders and economists, both within and outside of Government, with the view to developing a sound, permanent basis for new legislation subsequent to the expiration of the Steagall Amendment.

1. Two-price marketing schemes. The principle that underlies all export subsidy programs is to effect a separation between the foreign and domestic market in order to remove the marginal market influence of the price received in foreign markets which sets the price received for the entire crop. Separation of the domestic and export portions of the crop marketed would thus result in higher domestic prices which would no longer be determined by the relatively low purchasing power of foreign consumers. The cost of the subsidy program would be represented by the difference between the domestic and export price multiplied by the quantity actually sold for export. Since domestic prices could be raised only by reducing domestic supplies through increasing exports, which, in turn, would lower prices in importing markets, the increasing cost of such measures, if employed as a basis for permanent programs to expand export trade, is obvious.

Perhaps the most widely known two-price plan based on permanent export subsidization as a means of maintaining a balance between agricultural production and market outlets is the Export Debenture Plan. The essential principle of this plan is the paying of a bounty on farm



products in the form of negotiable instruments called debentures which can be used by importers in paying import duties. The price of domestic farm products would be raised to the extent of the bounty, and the revenue of the Government would be correspondingly reduced. The maximum height of the export bounty is the import duty, which would prevent a return-flow of the products exported. The plan also provides that when acreage or production increases as much as 15 percent, the debenture plan then becomes inoperative. This provision, designed to protect the Government against having to support prices regardless of volume of production, reveals the principal weakness of the plan and of most other plans that are essentially based on two-price marketing schemes. No economic forces are set in motion that effect needed adjustments in production to changing market conditions. In fact, such schemes would operate to stimulate production until the increasing surpluses put on the export market depress world prices to an extent which would eliminate the gain to producers. And when the increase in acreage or production has reached a permissible maximum, the Government would withdraw the plan and leave the producers with the increased production and no protection. Thus, the plan would set in motion activities which would defeat the purpose for which it was designed.

A number of two-price plans have been proposed under which the cost of marketing supplies produced in excess of domestic requirements (at support prices) would be borne by producers. The most prominent of such schemes are the Equalization-Fee Plan, as embodied in the McNary-Haugen Bill, and the Domestic Allotment Plan. The Equalization-Fee Plan calls for a two-price system of paying producers for the part of the crop



sold on the protected domestic market and the part of the crop exported, the former to be paid in cash on the basis of parity prices, and the latter in the form of certificates redeemable in cash after net proceeds from the sale of the exported surplus were determined. Under the Domestic Allotment Plan, a processing or sales tax would be collected from all first sales of the commodity except the portion which is exported. The funds so obtained would be paid to producers of the commodity in proportion to their individual shares in the domestic sales on which the tax was collected (domestic allotment.) Other plans of a self-financing nature, such as those proposed by John Brandt, W. R. Ronald, Carl H. Wilken, and others, essentially represent modernized versions of the Export Debenture or Domestic Allotment plans, differing merely in the mechanism employed in prorating the loss on the exported surpluses among producers.

Proposals calling for the imposition of equalization fees on sales of farm products to finance price support and land withdrawal operations (as proposed by John Brandt) would chiefly shift the cost of price support operations from the U. S. Treasury to agriculture itself--contrary to the intent of legislation which recognizes the need for agricultural price supports as being in the national interest. Furthermore, most of such programs would act against rather than toward promotion of needed production shifts. Commodities in strong demand would be taxed, thus hindering their production and consumption, in order to subsidize unwanted production of other commodities.

2. Compensatory payments. Another course of action to make parity prices workable objectives of agricultural price policy is to leave market prices themselves unsupported, so as to move farm products



into consumption, but to make up to farmers through compensatory payments the difference between market prices actually received and parity prices. This would save the Government's actual buying and handling of surplus commodities. Aside from the complex administrative difficulties involved, such a method price support would tend to maintain a high rate of production when demand falls off and would not solve the basic problem of intercommodity price and production adjustments. Returns to producers would still make the production of unwanted commodities profitable and in some cases more profitable than the production of foods that are needed. A modification of this difficulty would be to make compensatory payments only on that part of the production which falls within assigned allotments. However, this involves again the administrative complexity of setting individual farm allotments and requiring every individual producer to keep receipts and file claims in connection with all of his sales. The direct costs to the Government of compensatory payments would be materially greater than the cost of market price supports, because demand for farm products is relatively inelastic; i.e., a surplus of, say, 10 percent causes prices received by farmers to decline by more than 10 percent.

The program of parity income recommended by the American Farm Economic Association (Committee on the Redefinition of Parity Prices and Parity Income) is essentially a program of compensatory payments, though applied to farm income rather than farm prices. The proposed program would leave the prices of individual agricultural products to be determined by the free play of market forces. Payments are to be distributed to individual farmers on the basis of total cash receipts from farm marketings, the total amount of such payments to bring over-all farm



income to 80 or 90 percent of a parity level based upon a revised formula.

Although the proposal has much to recommend in that it would overcome the distorting effects of compensatory payments--based on individual parity prices--upon producers' decisions, there are strong arguments against the central idea upon which the proposal is based that free market prices would clear the markets of surpluses and guide producers' operations in the best interests of agriculture and the nation as a whole. It would return agricultural prices to the free market, with its shortcomings that proved so disastrous to farmers in the past. Also, the proposal would freeze the historical relation between per capita farm and non-farm income at a level that existed in an earlier period, and there is no assurance that this is the ratio of incomes that would be needed to allocate resources properly between agriculture and the rest of the economy in the years to come. The fundamental soundness of programs which, in effect, would guarantee a minimum income to one group of our economy is open to question, regardless of how the term of minimum income is defined. The administrative complexities involved in making direct payments to individual farmers would be another objectionable feature.

The main problem is not the best method of supporting prices. Whether price support commitments are carried out through market operations or through direct payments to farmers, there would still be the danger that support prices are set at uneconomic levels.

3. Revisions of the parity formula or of its application. The impracticability of present legislation relating to agricultural price supports is largely due to the obsolescence of the parity formula upon which it is based and the rigid legislative restrictions in the admin-



istration of support programs. Numerous proposals have been advanced to refine, broaden, and bring up to date the parity standard, with the view to paving the way for the development of new or revised legislation without sacrificing the concept of parity as an objective of agricultural price policy.

Parity prices based on the 1909-14 period have been useful in pointing out and helping to correct the great disparities of price behavior as between agriculture and industry, which developed in periods of business depression. There is nothing wrong with the parity concept as such. In fact, no better device has yet been developed for resolving these disparities into a single and simple expression and for setting a yardstick for farm programs aiming to correct these disparities. The success of our free enterprise economy depends upon the interdependent functioning of agriculture, labor, and capital, and the concept of parity has demonstrated its potential ability to discipline the very groupistic tendencies which gave it birth. Despite its faults, parity has served agriculture and the Nation well.

The parity concept is based on the idea to offset the disproportionately severe effects of business fluctuations upon farmers by stabilizing the exchange value, or purchasing power, of farm commodities in terms of prices paid for goods used in farm family living and production. In general, parity as defined by present legislation is the price which will give a farm product the same purchasing power which the product possessed in the period 1909-14. In that period, farm product prices relative to industry had been at relatively satisfactory levels.

Like all purchasing power indices, the parity index measures change



only in prices and does not take into account changes in costs which significantly affect the economic status of farmers. Based on production cost relationships that existed 35 years ago, present parity prices as the objective of price support programs would perpetuate outgrown production patterns and resist the very adjustments which the programs would aim to bring about. As pointed out under "Problems arising from the present parity standard," such programs would encourage the production of surpluses which would have to be disposed of by subsidizing foreign consumers or through other diversionary measures, while, at the same time, the unsatisfied food demands of our own people could not be met because of inadequate incentives to produce.

A considerable amount of serious thinking has been and continues to be directed towards revising and re-defining parity. Most proposals call for a more recent historical base period, such as 1935-39 or 1935-44. The inclusion of farm wages in the index of prices paid is strongly advocated by farm organizations as a means of bringing the parity formula up to date. Labor is the most important single item of production expenses and is 5 times larger than taxes which are included in the computation of parity. Since farm wages fluctuate more than prices of the goods farmers buy, the inclusion of farm wages in the parity formula would make parity prices more variable. Also, it would raise parity prices in periods of industrial prosperity and lower them in depressions. Since in periods of prosperity market prices may be expected to be above support prices, the increase in support prices reflecting the higher cost of farm labor would likely be inconsequential. In periods of general price declines, however, downward adjustments of parity prices due to lower wage rates of farm labor would be desirable.



A revision of the parity formula favored by the Department of Agriculture would retain the 1909-14 base, but adjust the parity prices of the individual commodities to the price relationships which existed in the most recent 10-year period. Obviously, the fact that the ratio of prices received to prices paid in the 1909-14 period was more favorable to agriculture than in the 10-year period suggested to be used for determining intercommodity price relationships, rather than deference to the firmly rooted 1909-14 parity standard has been a consideration in the formulation of this proposal.

Although the adoption of any more recent historical base for parity would represent an improvement over the base period now used, no formula based on rigid relationships as between prices of farm commodities and as between prices of farm commodities and non-agricultural commodities derived from a fixed historical base period can offer a satisfactory solution to the problem of guiding agricultural production into a pattern that assures efficient use of agricultural resources of production.

If the objective of agricultural price support legislation is to assure farmers at all times a stable position in the relation between the prices of goods they buy and the prices they receive for their products, the needed measure cannot be expressed in terms of price relationships which do not reflect changes in production costs.

The shift to "comparable" instead of parity prices would not offer a feasible solution to the difficulties involved. In fact, the problems would be aggravated by battles over the choice of base period which would merely become a struggle for selfish commodity group advantages in which the national interest would largely be ignored. To be a workable basis



for action programs, the parity standard must be objective in formulation as well as in administrative application.

A number of proposals favor retention of the present parity formula and recommend adjustment of support prices for different commodities to different percentages of parity that more closely reflect actual production cost relationships. This would, in effect, be practically identical with the adoption of a more recent historical base. However, there would be serious administrative difficulties in determining the different percentages of parity at which different commodities would have to be supported; there would be pressure of commodity groups for special advantages; and the different percentages of parity applied to different commodities would suggest inequities and discrimination as between different commodity groups.

To avoid the difficulties and disadvantages that attend attempts to support market prices against changes in supply or demand, preference is given by many to limiting price support programs to "stop-loss" programs aimed at putting a depression floor under agricultural prices. Above these minimum levels, prices should be determined by the free play of economic forces. Proposals of this kind call for support prices at uniformly low percentages of parity, with reliance on market prices rather than production control to effect needed adjustments between supply and demand.

Aside from questioning the efficacy of free market prices in guiding the use of agricultural resources into a pattern that reflects the real needs of consumers, programs of agricultural price support which are limited to periods of extreme business depressions could not offer farmers equality of economic security. If parity prices reflect desirable inter-



relationships as between prices received by farmers and prices paid by farmers, there should be no need for parity-ratio objectives other than full parity. Parity denotes equality and balance; and the objective of agricultural price policy should be the attainment of equality and balance, not 75 percent, or 60 percent, or any other percent of it. While the concept of parity as a goal for agricultural price policy does not imply legislative maintenance of full parity prices, the provisions of current legislation calling for direct price supports at 90 percent of parity aim, in effect, to establish price levels that reflect full parity to producers.

4. Free market prices as instrument of adjustment. Although few people advocate a program of complete laissez faire in which the Government would take no responsibility for economic matters, the idea of leaving the determination of agricultural prices to free competition has a number of proponents among economists.

Only free market prices, it is argued, continually adjust consumption and production to each other. And since free market prices vary inversely with production, they assure fairly stable income to producers insofar as variations in production are concerned. Any attempts to set prices at some other level than they would seek if they were left alone is bound to misdirect, impede, or accelerate production, the flow to market, and consumption in uneconomic directions. Prices should be at levels that bring forth only the supplies that the market will absorb.

There is but little evidence in the realities of agricultural price and production behavior to support the validity of such arguments. Free market prices have proved to be poor guides to farmers for their production plans and have led to wasteful misallocations of productive resources. The cycles in cattle and hog production are a striking illus-



tration of the shortcomings of free market prices as guides to production. Farmers act on the basis of existing prices which seldom prevail when the commodities move to market. While the unduly strong influence of current prices upon production decisions could be mitigated through outlook programs, farmers would pay little attention to production goals unless they are backed up by programs of attainment which, in turn, would have to be tied to price support programs.

Above all, however, the very fact that reliance on free market prices has in the past proved to be disastrous to farmers has been responsible for the development of measures designed to protect farmers against the operation of "free" competitive markets in an economy where the wages of labor and industrial prices have become progressively administered.

Proponents of a laissez faire policy for agriculture fail to recognize the essentially dynamic conflict between agriculture, labor, and capital as economic groups struggling for maximum shares of the national income. The formulation of the problem of the ratios at which the economic contributions of the various occupations to the Nation's wealth shall be expended receives no attention. The price relationships at which the goods produced by one group are exchanged for other goods produced by other people in other occupations are subjected to groupistic restraints of competition over which farmers have no control. Labor and capital have been finding means of maintaining wages and prices through organization, tariff walls, and monopolistic controls, while prices of agricultural products are largely determined by free competition.

The economic philosophy of democracy, demanding that no one group shall be allowed to transcend the interests of the whole public, has been



made ineffective by the belief that the exchange of goods, i.e., the distribution of the produced wealth, is determined by the play of self-regulating forces. Conceding the validity of the reasoning that the consumer should not be sacrificed to the farm interest, it must also be demanded that the consumer should pay the full costs of agricultural production and should not be subsidized by the farmer.

5. Parity income. The idea of using parity income instead of parity prices as the objective of agricultural price policy appears to be predominately favored by agricultural economists. The concept of parity income is neither new nor would its implementation in Government price support programs require new legislation. Under Title III of the Agricultural Adjustment Act of 1938, parity income is defined as the per capita net income of individuals on farms from farming operations that bears to the per capita income of individuals not on farms the same relation as prevailed during the period from August 1909 to July 1914. Parity income so defined provides a more accurate measure of the economic status of farmers than parity prices which do not take into account the quantities produced per person on farms nor the quantities of things farmers buy. However, while the Act specifically states the determination of parity prices as a responsibility of the Secretary of Agriculture, "parity income" is referred to only in the declaration of policy and, therefore, has remained of little more than academic interest.

Considering the fact that parity income refers to net income, while parity prices deal with gross income from farm marketings, it is obvious that full parity prices do not establish parity income. Notwithstanding, economists and partisans alike have been guilty of confusing the legal



term parity income with the informal concept that no particular commodity need be at parity as long as the average of all farm prices stands at parity. In discussions and debates that have attended the formulation of policies regarding parity for agriculture, the statement has frequently been made that although corn or wheat were at around 85 percent of parity, parity income had been achieved--which represents a complete misunderstanding of the language of the Act. The statutory provision directing that "parity payments" shall be distributed to producers of basic commodities in proportion to the amount by which returns from these crops fail to realize "parity income" is not aimed at the attainment of parity income as defined in the Act. The term parity income as used in this provision merely refers to the income accounted for by the volume of output times parity price; the payments to farmers are price-deficiency rather than income-deficiency payments.

As parity income remained stated but unheralded under the Act, parity prices grew into an integral and inseparable part of farm policy and legislation. No policies or programs were developed aiming at the attainment of parity income as defined by law. Nor are there indications that proposed programs to that end will meet with as favorable a reception as their approval by agricultural economists might suggest. Although parity income would be a better yardstick than parity prices for measuring the relative economic welfare of farmers as compared with people not living on farms, and the maintenance of a favorable, stable ratio between per capita farm and non-farm income may be considered as a sound and attainable objective for agriculture, the implementation of Government programs to that effect would constitute income guarantees for one segment of our economy at the expense of total national income. Why, then, could labor



as a group not also demand permanent legislation providing for income deficiency payments whenever average per capita income falls short of a minimum calculated from a historical period in which the relative position of labor was most favorable?

The inherent incompatibility of such proposals with truly national policies of democratic Government is an obstacle which the proponents of parity income as an objective of Government farm policy would have to overcome.

Still more objectionable than parity income schemes are proposals for price support programs aiming to stabilize total farm income at a historical or otherwise determined percentage of total national income. A number of plans for support price adjustments on the basis of formulas that guarantee producers a stable income regardless of quantities produced (with support prices varying inversely in the same proportion as production exceeds or falls short of goals) must be classified under this category, as the operation of such programs would, in effect, freeze total farm income to past historical patterns.

The concern expressed by some farm leaders over the falling percentage which farm income represents of total national income stems from a fundamentally wrong concept of equality for agriculture. Policies and programs with an objective of stabilizing the farmers' share of the total national income must be unqualifiedly rejected as being in diametrical opposition to any policies and programs aiming at the attainment of higher standards of economic life for the Nation as a whole. The fact that our national material progress depends upon an ever-declining share of farm income in terms of total income does as yet not appear to be



fully accepted in its implications upon any and all farm programs that are to be compatible with national economic interest. The lower the percentage of our population which is engaged in agriculture and the lower the portion of our national income that has to be spent for the satisfaction of the most elementary of all human needs, i.e., for food, the more of our people will be free to produce the goods and render the services which make up a higher standard of economic life.

Table I

Basic Data Relating to Trends in Agricultural Prices and Income

Period	Farm Price Indexes			Farm Population:		Net Farm Income 2/	
	:	:	:	:	:Percent:	:	: Percent of
	: Prices	: Prices	: Parity	:	:of U.S.:	:	: National
	: Received	: Paid 1/	: Ratio	: Total	: Total	: Total	: Income
	Percent	Percent		Thous.	Per.	mil.dol.	percent
1910-14	100	100	100	32,197	34.0	4,321	12.4
1915-19	162	150	108	32,002	31.2	7,463	14.3
1920-24	151	173	87	31,415	28.7	5,636	8.4
1925-29	149	168	89	30,405	25.7	6,645	8.3
1930-34	90	135	67	31,132	25.0	3,481	6.4
1935-39	107	128	84	31,037	24.1	5,362	8.1
1940-44	154	148	104	28,297	21.1	10,408	8.5
1946	233	194	120	26,850	19.1	16,649	10.0

1/ Including interest and taxes.

2/ Total net income to persons on farms from agriculture (adjusted for change in inventory and farm wages to laborers living on farms)

There is no conflict, however, between agriculture and national interest in policies and programs designed to enable farmers to earn larger per capita incomes. In fact, trends in farm population and total farm income strongly point to larger per capita farm incomes. In 1910 there were 35 persons on farms to 65 in cities and villages. In 1940 this ratio was 23 on farms to 77 in cities. Indications based on population statistics suggest that in 1960 there will be only 17 persons on farms to



supply food for 83 persons not on farms. As compared with 1910, total U. S. population in 1960 is indicated to be 60 million larger, while the farm population will have declined by 6 million. The non-farm population will have grown from 60 to 126 million, i.e., the number of city consumers will have more than doubled.

#### IV. Equality of Economic Security and Opportunity for Agriculture

##### 1. Basic differences in production and price behavior of agriculture

as compared with industry. Agricultural production possesses certain distinct characteristics which set it off from industry. The most obvious difference between agriculture and industry is the dependence of agriculture upon the whims of nature. The yield of crops varies considerably from year to year due to uncontrollable factors, such as weather, disease, and insects. Variations in the size of the annual crops depend far more on the yield per acre than on the amount of acreage planted.<sup>1/</sup> This leads to conditions of great variability and uncertainty of output, yet year after year people go on consuming in the usual amounts. From a standpoint of public interest, therefore, the only safe production plan for agriculture is to plant on the upper side of plenty. Under such a policy, in years of high yields

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<sup>1/</sup> Records of acreage planted are available since 1924. If the average acreage planted during the years 1924-1933 is taken as 100, the total range in acreage planted is from 92.8 percent of this average in 1934 to 102.8 percent of the same average in 1932. The variation in yields is much greater. If the average yield for the years 1923-1932 is taken as 100, the range in yields--excluding the drought years 1934 and 1936--is from a low of 92.4 in 1921 to a high of 132.2 in 1942. This comparison undoubtedly exaggerates the range in yields, since yields have increased to higher levels than prevailed during the 1920's and early 1930's. The highest index of yields recorded prior to 1934 was 92.4 and the lowest record since 1937 was 113.9.



farmers will produce a great deal more than plenty. Since demand for agricultural products is relatively inelastic, the appearance of surpluses relative to normal requirements has a disproportionately depressing effect on prices received by farmers. Thus, farm income may drop sharply even under conditions of stable demand because of factors of production over which farmers have no control. If, on the other hand, farmers would plant a smaller acreage than called for on the assumption of normal yields, the failure of normal yields to materialize may result in serious shortages and high prices to consumers. Since a relative under-supply will cause a greater rise in prices than a relative over-supply will cause a decline, the aggregate farm income from a small crop may be larger than the returns from a large crop. However, the relatively high prices associated with a short crop will not compensate producers in the areas where the low yields occurred for the reduced volume of production.

To the extent that violent changes in farm prices are not caused by the failure of producers to adjust their operations to changing market conditions, programs of stabilizing prices against fluctuations in supplies over which producers have no control are a first and necessary step in assuring farmers equality of economic security. This assurance would allow farmers to devise for themselves effective ways of maintaining their incomes at fair ratios to the incomes of the other groups in our economy; and to see to it that returns to agricultural producers assure consumers an abundant, continuing supply of food is a matter of national interest.

To protect farmers against income instability resulting from uncontrollable variations in production would not only call for price supports against the effects of abnormally large yields, but crop insurance to protect the individual producer against abnormally low yields due to



factors over which he has no control. To the extent that the uncertainties of agricultural production depend upon the forces of nature, it is obvious that the principles of distribution of risk which are so widely utilized in other phases of economic life should be applied to shield agricultural producers as well as the consuming public against instability of prices and supplies.

Agricultural prices, also, possess distinct characteristics which set agriculture off from industry. In periods of general price declines, prices of farm products sold by farmers decline faster and farther than the prices of the goods they buy. This unequal liquidation of prices, in turn, affects the non-agricultural segments of our economy, since farmers are unable to make their usual purchases of manufactured goods. As a result, non-agricultural markets contract further.

Industry quickly adjusts itself to declining prices by reducing production. This eliminates a large part of the expenses, such as labor, power, and raw materials. The burden of supporting the unemployed labor is shifted to society. In agriculture, it is not only much more difficult to adjust production to prices, but also less advantageous than in industry. By reducing his output, the farmer is only slightly reducing his expenses because of the relatively large proportion of fixed production costs. Farmers, therefore, continue to produce about the same aggregate amount of crops and livestock when prices are rising or falling. In fact, individual producers may be driven to increase production in an attempt to offset the effects of falling prices upon their income.

In 1929, the volume of industrial production was higher than in any previous year of record. But industrial production in the following

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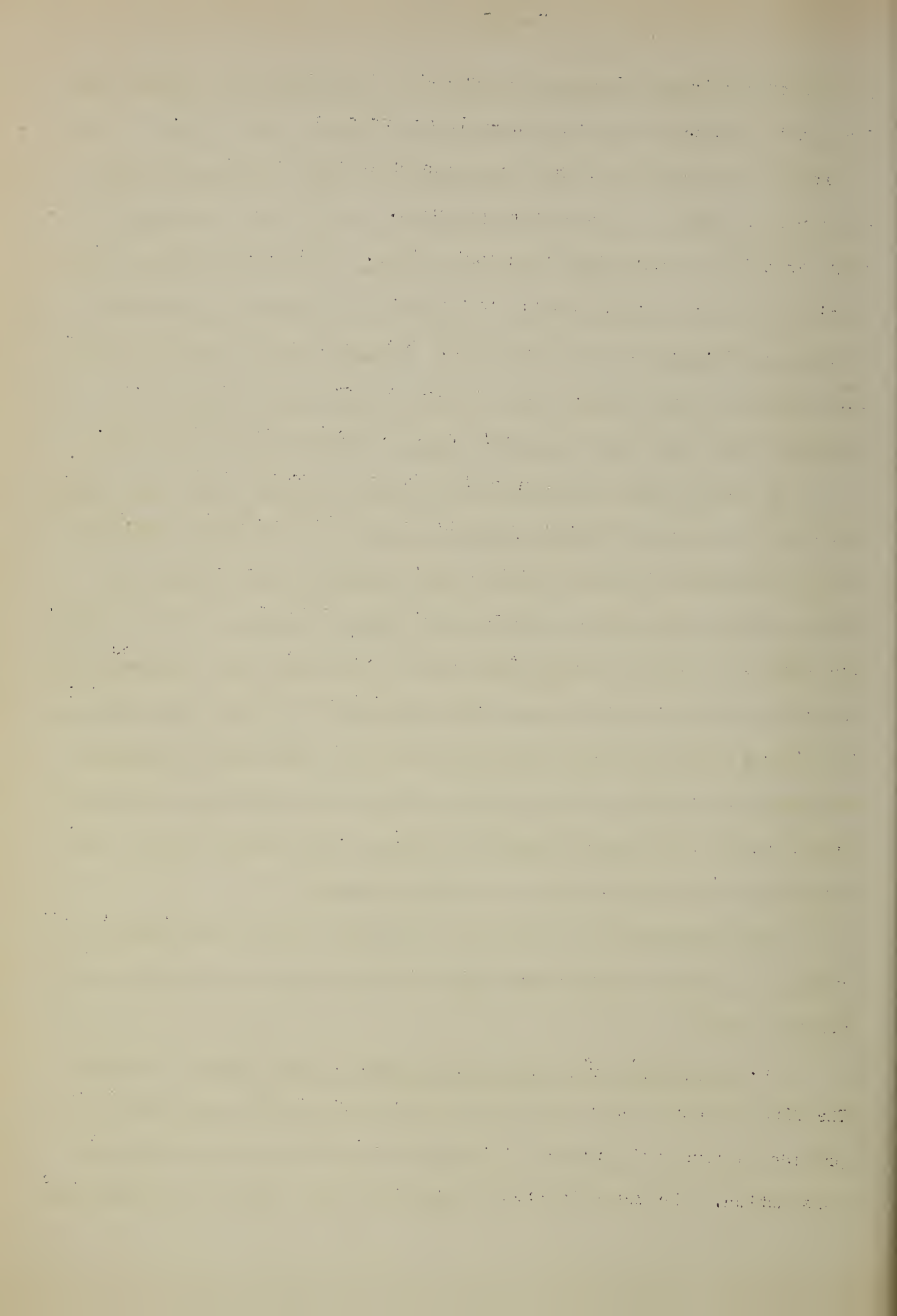
3 years of declining prices was reduced at a rapid rate, so that the production in 1932 was only about one-half as large as during 1929. In sharp contrast to the decline in the production of factory products was the relatively constant output of farm products. Total farm production in 1932 was only 3 percent less than during 1929. These differences in production behavior between industry and agriculture were associated with contrary differences in price behavior. Between 1929 and 1932 the wholesale prices of farm products were reduced by more than one-half; the decline in the prices of industrial products was less than one-fourth.

If farmers could be assured that factory payrolls would stay high, and that the prices of factory products would fall when full production could not be sold at current prices, they would have less interest in price support legislation. Unfortunately, this assurance cannot be given, and since it is still possible that some of the things that happened after World War I may yet come to pass after World War II, farmers are justified in pressing for satisfactory guarantees that they will not be penalized for abundant production of food during periods when for causes the farmers cannot control, industrial production declines, many factory workers are without work, and total factory payrolls are small.

These differences in production and price behavior as between agriculture and industry suggest the need for and the basis of a price policy for agriculture.

## 2. Essentials of a sound price support program for agriculture.

The first essential of a sound price support program for agriculture is to provide farmers with incentives towards the balancing of production and consumption. The determination of production goals and the implementation



of programs designed to achieve these goals are, therefore, central to the successful operation of price support programs.

The criticism that the goals approach to the problem of providing a balance between agricultural production and requirements aims at replacing the basic function of market prices to guide production and consumption, a function which prices cannot satisfactorily perform under a system of Government-pledged market supports, has no basis in fact. Free market prices do not provide agriculture with a reliable guide for production, and the very purpose of goals is to ease the task which market prices are expected to perform in directing producers' decisions. Prices, of course, do direct agricultural production. But farmers predominantly act on the basis of prices existing at the time when decisions are made, and since these prices rarely prevail when the crops or livestock products arrive on the market, farmers tend to find themselves with the largest quantities to sell when prices are low and the least to sell when prices are high.

The goals approach provides producers with a forward-looking base of operations which reflects the food situation in prospect, i.e., the volume and kinds of agricultural products that will be needed.

The determination of production goals for individual commodities is based on expected demand for these commodities. Demand, however, is dependent upon price, and price, in turn, depends upon supplies.

A production goals program without definite assurances regarding prices would merely be an outlook program designed to assist farmers in more intelligently evaluating economic conditions affecting production and requirements. Assuming that this could be done with a high degree of accuracy, there would be no assurance that the majority of producers



would adjust their operations accordingly. In fact, due to the individualistic characteristics of agricultural production, an outlook program may result in producer actions quite different from those desired. For instance, a forecast for lower prices for a given commodity and the recommendation to reduce production may encourage individual producers to increase production in the anticipation that other producers would act in conformity with the outlook program and thus bring about favorable market conditions. With the individual farmer attempting to do the opposite of what he believes the other producers are planning, an outlook program may defeat its very purpose.

The difficulty of directing producers' operations through outlook programs stems from the fact that the individual producer exercises no control over prices. Each of the six million farmers in the United States exerts so infinitesimal an influence on market conditions for his crops that the maintenance of a production policy is virtually impossible without Government assistance. Whether the individual farmer produces a little more or a little less will be inconsequential insofar as price is concerned, but it will be highly important for him individually.

Without price supports and crop insurance providing producers with incentives to act in conformity with an indicated over-all pattern of demand, outlook or goals programs may be expected to be ineffective in bringing about needed production adjustments. As an integral part of price support programs, however, production goals may be relied upon to be an effective aid in adjusting production to anticipated demand.

A scheme of "forward" prices in conjunction with compensatory payments, such as propagated by Theodore Schultz and others, would not assure desirable changes in the production pattern. Farmers would not



be interested in "forward" prices if they were going to receive compensatory payments; instead, they would be expected to base their production plans upon "forward" prices plus compensatory payments.

In a system of price supports, production goals are not merely based on expected demand at estimated prices. They are based on expected demand at support prices, i.e., production goals for individual commodities are the quantities expected to move into consumption at parity prices.

The difficulties of setting production goals for wheat and cotton raised by the uncertainty of export demand on the one hand and of the level of industrial activity on the other, which have to be estimated for a year ahead, present problems which are no different from those under present production goal and price support programs.

Assuming that it is the purpose of price supports to protect farm incomes from the full impact of industrial depression--insofar as Government measures fail to prevent depressions--and from excessive variations in yields, the production goals should reflect a stable rate of domestic consumption, indicated exports, desirable carryover adjustments, and the materialization of normal crop yields. Administrative difficulties will center on the problem of forecasting prospective export requirements under various assumptions as to price policies.. The Department of Agriculture has, however, for a number of years been forecasting demand as a basis for outlook work and during the war and the post-war period as a basis for production goals and allocations. Some further development of work along these lines might be required, but the difficulties would hardly prove insuperable.



Assuming that effective measures of production goals achievement can be devised, the only remaining factors of uncertainty are the unpredictable influences of weather on yields and changes in general business conditions affecting demand at parity prices. The uncontrollable factors of production may be met by price supports on the one hand and crop insurance on the other. This leaves but one more factor, the impact of business fluctuations upon farm prices, which must be dealt with to make price supports and goals programs workable.

The most effective means of supporting farm prices against the disproportionately severe effects of a decline in the general price level is the maintenance of adequate market outlets for a high level of food production as a whole. Success in maintaining high levels of non-agricultural production and employment and a flourishing export trade will go a long way toward this end. No other factor can be as effective in improving the terms at which farmers exchange the products of their labor against the products and services of the other groups in our economy. It not only provides agricultural producers with an increasing volume of goods and services which can be absorbed in the rising standard of living, but offers employment opportunities for surplus farm workers. Agriculture, therefore, has a vital interest in national economic policies and programs that aim at maintaining high levels of industrial production and employment. Agriculture cannot create its own prosperity. It cannot isolate itself from the effects of industrial unemployment.

Such programs should include definite measures for maintaining consumer purchasing power in the event that substantial unemployment develops. This will be important from the standpoint of early correction of depressive tendencies generally and will be essential to the protection of farmers



whose markets are so strongly sensitive to depressive influences. With demand at a high level, agricultural adjustments will require chiefly shifts between commodities, not over-all contraction. We have learned how much food the American people will eat under conditions of full employment and plenty of money to spend. Even more grain would be consumed in the form of meat and dairy and poultry products if it had been available; consumption is being adjusted to available supplies by rising prices.

V. Policies and Courses of Action Recommended for New Legislation

1. Redefinition and revision of parity concept. The difficulties with the present parity formula and its application as directed by law would be essentially overcome if a moving average price pattern of the last 5 or 10 years were used as a base, with each year a new one added and an old one taken off. Such a parity standard would provide a simple and practical basis for carrying out price support programs to protect producers against the severe incidence of business depressions and against the disproportionate effects of uncontrollable fluctuations in production upon farm prices. It would tie support operations immediately to normal and current intercommodity price and market relationships and reflect changes in these relationships which develop over a period of time.



TABLE II

Parity Prices, 1909-14, 1937-46, and 1942-46 Bases

Index Number	Base Prices			Parity Prices, August 1947		
	1910-14	1937-46	1942-46	1910-14	1937-46	1942-46
Wheat, dollars per bushel	.884	1.106	1.444	2.08	1.747	1.993
Corn, dollars per bushel	.642	.870	1.151	1.51	1.375	1.588
Rice, dollars per bushel	.831	1.330	1.820	1.95	2.10	2.51
Cotton, cents per lb.	12.4	16.9	23.0	29.14	26.70	31.74
Hogs, dollars per cwt.	7.27	10.93	14.27	17.08	17.27	19.69
Eggs, cents per dozen	21.5	27.5	34.5	50.5	43.4	47.6

In substituting this new formula for the 1909-14 standard subsequent to the termination of the Steagall legislation, desirable continuity with actual prices and price relationships would be assured. It would assure a structure of prices that fit in with the pattern of prospective food requirements as nearly as can be foreseen now. Either a 10-year or a 5-year moving average would take account of changes in production costs, reflecting changes in techniques of farming which invariably evolve rather slowly over a span of years. A 5-year period would more readily reflect short-time divergences in the demand pattern. However, since it is not the purpose of parity to quickly reflect temporary changes in supply and market relationships, the greater sensitivity of the 5-year moving average to such short-term changes should not be considered as a factor in giving the 5-year period preference over the 10-year period. Adoption of a 5-year moving average, however, would not only reflect actual current market conditions,

STATE OF NEW YORK

NAME	RESIDENCE	DATE	AMOUNT	REMARKS
J. B. Smith	New York	1875	100.00	For rent of office
J. B. Smith	New York	1875	200.00	For rent of office
J. B. Smith	New York	1875	300.00	For rent of office
J. B. Smith	New York	1875	400.00	For rent of office
J. B. Smith	New York	1875	500.00	For rent of office
J. B. Smith	New York	1875	600.00	For rent of office
J. B. Smith	New York	1875	700.00	For rent of office
J. B. Smith	New York	1875	800.00	For rent of office
J. B. Smith	New York	1875	900.00	For rent of office
J. B. Smith	New York	1875	1000.00	For rent of office

Received of J. B. Smith the sum of \$100.00 for rent of office for the month of January 1875.

Received of J. B. Smith the sum of \$200.00 for rent of office for the month of February 1875.

Received of J. B. Smith the sum of \$300.00 for rent of office for the month of March 1875.

Received of J. B. Smith the sum of \$400.00 for rent of office for the month of April 1875.

Received of J. B. Smith the sum of \$500.00 for rent of office for the month of May 1875.

Received of J. B. Smith the sum of \$600.00 for rent of office for the month of June 1875.

Received of J. B. Smith the sum of \$700.00 for rent of office for the month of July 1875.

Received of J. B. Smith the sum of \$800.00 for rent of office for the month of August 1875.

Received of J. B. Smith the sum of \$900.00 for rent of office for the month of September 1875.

Received of J. B. Smith the sum of \$1000.00 for rent of office for the month of October 1875.

but would assure the maintenance of relatively high support levels for grains as long as maximum production of these commodities is called for.

An objection which has been raised against the adoption of a moving average as parity standard is that prices in any recent period would reflect the effects of the operation of Government programs and that these programs would operate to maintain undesirable rigidities which the use of a moving average could not correct.

This objection would be valid only if the Government would have to support prices at fixed levels in terms of parity regardless of volume produced, that is, at levels which could not be sustained for long by fundamental conditions of supply and demand. Neither the Agricultural Adjustment Act of 1938 nor the Steagall Amendment to this Act intended to provide farmers with rigid price supports for unlimited production, and there is every reason to believe that any new price support legislation subsequent to the expiration of the Steagall period will embody more rigid provisions designed to protect the Government against having to support prices regardless of volume production. If farmers expect protection from the Government against the impact of economic forces over which they have no control, they must expect to be subjected to the controls necessary to make such protection work.

2. Support prices and supply stabilization measures. Under a program designed to support farm prices against the unstabilizing effects of uncontrollable fluctuations in agricultural production and against the unduly severe impact of business depressions, the Government would be called upon to absorb through loan or purchase agreement programs the amounts of grain which cannot be moved into normal trade channels at prices reflecting parity to producers.



In order that, in carrying out such programs, the Government be protected against having to support prices regardless of volume produced and against the disastrous consequences of the piling up of surpluses from one crop to another, the following policies and measures are proposed:

- (1) In general, price supports reflecting full parity to producers shall be applicable to any basic agricultural commodity only if and when stocks of the particular commodity held by the Government as the result of loan and purchase agreement operations do not exceed a maximum for such stocks of such commodity as specifically defined by law.
- (2) In years of abnormally large crop yields, production may, with acreage being in conformity with production goals, be substantially in excess of the quantities that can be sold at parity prices. Since the surpluses are the result of uncontrollable factors of production, price supports for the following crop year would be maintained at price levels reflecting parity prices to producers. The Government would assume ownership of the supplies of grain acquired under loans or purchase agreements (at not less than 90 percent of parity), and no disposal programs would be undertaken until and unless Government stocks held at the end of the crop year exceed a maximum to be defined by law.

Whenever it is found that Government held stocks are larger than desirable, but below the legally



defined maximum, production goals for the following crop year will be correspondingly adjusted, other factors being equal.

- (3) If production exceeds the goal as the result of a larger acreage planted than called for on the basis of production goals, with demand inadequate to absorb the increased supply at parity prices, support prices for the following crop year would be maintained at (90 percent of) parity only if Government-owned stocks at the end of the old crop year do not exceed the legally permissible maximum of such Government-held stocks. If this maximum is exceeded, the Government will no longer be committed to price supports at parity for the following crop. Support prices would be lowered, and if acreage and production continue to exceed the recommended goals, and Government-held stocks are not reduced below the maximum--that is, below the levels necessary to authorize price supports at parity--loan values and purchase agreement prices will again be lowered for the following crop. The process of lowering support prices for successive crop years will continue until producers fall in line with the adjustments needed. Persistent overproduction extending over a number of years would lead to successively lower support and market prices, which in turn, would be reflected in declining parity base prices.



Thus, support levels would be brought in line with current normal production-consumption relationships. Obviously, if production persistently exceeded the goals, the support level, i.e., parity, must be considered as too high relative to costs of production.

If, for example, production of corn at a given price level becomes more profitable as the result of increased mechanization and more widespread use of hybrid seed, the tendency to transfer resources of land to increased production of that commodity will be irresistible. Production goals, however, should not be held up to producers as the basis for crop restriction. This would be the level to which producers under rigid price supports based on a historically fixed parity formula would have to be restricted under a program of insuring compliance with production goals. Instead of saying to farmers, "You must not produce more than this amount," the Government should be saying, "This is the level of production on which parity prices will be guaranteed. If production conditions are such that you find it profitable to produce more than this quantity, you are free to do so at prices sufficiently lower to move the larger supplies into consumption." The price adjustments would be effected through administratively determined lower loan rates and purchase agreement prices, which would automatically, though not proportionately, lower parity prices until the incentives to produce are again in balance with the amount of production which the market can absorb at the annually recomputed parity prices.

Only such changes in supply or demand forces as extend over a number of years would be effective in significantly raising or lowering the parity base. The reflections of such changes on the parity base would be more gradual if a 10-year moving average is used than if the base period



consists of 5 years only. Year-to-year divergences in supply and market relationships which are of a temporary nature, i.e., which do not develop into trends, would not significantly affect the yearly recomputations of the parity base, even though such changes may have to be administratively dealt with through loan rate adjustments. The essential purpose of the proposed method of employing a moving average as base for the parity standard is to make parity prices responsive to the existence of such divergences which extend over a period of time, and not merely to reflect changes in economic conditions which take place outside of the agricultural segment of our economy, i.e., prices paid by farmers. Such changes should be accounted for by the index of prices paid.

Progressively widening differences in prices received by farmers as compared with parity prices, resulting from successive administrative adjustments in loan rates, would be only partially restored with the re-establishment of loan rates at parity when Government-held stocks have been reduced below the legally defined maximum. The lower prices received by farmers during the period of administratively lowered loan rates would also have lowered the parity base when loan rates go back to parity prices.

Such a program of price supports would avert the danger of commitments at arbitrary levels that do not reflect present or prospective conditions of supply and demand. It is considered as extremely important that price support levels be kept flexible in that they may adjust themselves not only to changes in the level of prices which farmers pay, but also to changes in cost of production and marketing. Only in this way can a balanced production be assured and surpluses and shortages be avoided. Such adjustments in parity prices must, however, be objective



and automatic, so as not to invite any pressures for special commodity group advantages.

The proposed program would provide a degree of flexibility that permits price movements to control the long-time allocation of resources of production. Static price relationships derived from fixed historical periods destroy the usefulness of any program of price supports for directing agricultural production. The fundamental role of prices must remain a functional one, as changing prices are necessary if the commodities are to be produced that people want and are willing to pay for and if these commodities are to be brought to the right places at the right times and to be sold at prices that clear the markets and make way for renewed production. Price floors, therefore, should not be maintained for long above the levels which would balance the expected supply against expected demand.

Attempts to maintain prices at uneconomic levels through controlling production, not only are, as the experience in this country and other countries illustrates, unworkable, but would be in diametric opposition to a policy of full use of our resources of production. Changing prices will be accepted by farmers, as they are accepted by every other group of producers in our economy, as the criterion by which they may know what their country wants them to produce. Farmers, however, must be assured equality of economic security and opportunity, and the price support program as proposed would provide this equality by maintaining a fair ratio as between the prices farmers receive and pay and by protecting farmers against the economic impacts of factors of production over which they have no control.



4. Surplus disposal policies and measures. To make a price support program as set forth economically sound and administratively practicable, the manner in which the problem of disposal of stocks accumulated in Government hands under the operation of the program is to be dealt with, is of decisive importance. The piling up of surpluses from one crop on top of another in an effort to maintain prices over a period of years above levels which otherwise would obtain, not only aggravates the difficulties of adjustment by reducing consumption and stimulating production, but the accumulated stocks remain a constant threat to future markets. The fact that such accumulations built up in the years just prior to the war proved to be a blessing in disguise cannot be construed as reflecting economic soundness of the program. Incidents of war or drought cannot be expected to continue to provide us with the unusual markets needed from time to time to rescue the Nation from the ill effects of inherently unsound economic policies. Except for the occurrence of such extraneous and unpredictable events, the Government would have been confronted with the need to expend larger and larger sums of public funds to meet its commitments and to finally, in an attempt to restore a balance between supplies and requirements, resort to more and more coercive means of regulating the business of millions of farmers. The unacceptability of such courses of action would have hastened the demonstration of failure of these programs to the people and their representatives who are entrusted with the making of legislation.

Recognized as sound is the ever-normal-granary principle that adequate carryover stocks be maintained to stabilize supplies and protect both producers and consumers from excessive variations in crop yields. Recogn-



nized, however, are also the dangers, well illustrated from the experience of the past, of interferences by group pressures with the economically sound operations of such programs by the Government, unless they can be surrounded by strong safeguards.

Accordingly, it is recommended that:

- (1) A determination be made by the Department of Agriculture of the level of total carryover stocks, in private hands and under Government ownership, that should be considered as normal from the standpoint of ever-normal-granary operations. This determination should be based on sound economic considerations as to the level of stocks required to provide a desirable stabilization safeguard against variations in crop yields and national emergencies.
- (2) A definite procedure be established for the determination of production goals from year to year on the basis of the relationships of actual total carryover to the determined "normal" carryover.
- (3) Increased responsibility for storage operations in connection with an ever-normal-granary program be placed on producers and the trade through purchase agreements rather than non-recourse loans.
- (4) The maximum stocks which the Government may hold at the end of any crop year be legally fixed for each of the grains for which price support operations are authorized. Such determination is to be



based on formulas defined by law in objective terms. (For wheat, for instance, it may be the equivalent of one year's requirements for human consumption; for corn, it may be the amount needed to stabilize livestock production against variations in feed grain supplies due to variations in crop yields.)

- (5) In the event that stocks held by the Government at the end of any crop year exceed the limits permissible by law, mandatory disposal programs be implemented that move these excess stocks into consumption. This should include any supplies acquired during the following crop year in satisfaction of loans and/or in fulfillment of purchase agreements, which, if added to Government stocks, would cause these stocks at the end of the crop year to exceed the maximum as defined by law.
- (6) In crop years during which disposal programs to remove excessive Government holdings are in operation, price supports for the following crop year be maintained at (90 percent of) parity only if the acreage planted to that crop does not exceed the recommended goal. If the acreage goal is exceeded, under conditions of excess Government-held stocks and disposal programs in operation, lower support levels, in terms of lower percentages of parity, will apply to the new crop, the amount of reduction being subject to

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administrative determination. However, loan rates for any one crop year, may not be reduced by more than 10 percent, in terms of parity, though successive loan rate reductions, each not to exceed 10 percent, may be effected for successive crop years in which Government surplus disposal programs are necessary.

The proposed statutory limitations on the amounts of grain which may be carried over by the Government from one crop to the next, call for effective methods of surplus disposal as an integral phase of the price support program.

In devising and implementing programs of disposing of excess Government-held stocks acquired under price support operation, it is important that the courses of action followed do not interfere with the competitive operations of our domestic economy.

In periods of relatively high employment, diversion of such surpluses into livestock production would be difficult to justify. In order to move the increased output of meat and dairy and poultry products, consumer demand for these products would have to be subsidized. Under conditions of relatively high purchasing power of consumers, diversion of such surplus stocks of grain into non-food and non-feed uses should most effectively meet the problem of stabilizing supplies against excessive variations in crop yields.

Expanded industrial utilization of grain gives promise of providing new and increasing market outlets which are not subject to the limitations imposed upon the outlets for food by the human capacity to consume. No matter how we may shift the pattern of our agricultural production to

The first part of the document is a letter from the Secretary of the Board of Directors to the Board of Directors. The letter is dated January 1, 1900, and is addressed to the Board of Directors. The letter is signed by the Secretary of the Board of Directors.

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achieve higher dietary levels of nutrition, the per-capita consumption of food is definitely limited by the appetite of man. On the other hand, the non-food demands of people are limited only by their incomes and purchasing power. While these limitations of food outlets will be of no practical consequence for years to come, they are nevertheless potentially of fundamental significance. New industrial uses would represent real additions to market outlets, which would not be offset by decreases in the demand for other agricultural commodities.

The potential demand for grain in non-food industrial uses is believed to be sufficiently elastic relative to price to be relied upon as an effective means of siphoning off into complete disappearance such surplus supplies as cannot be moved at support prices and which are in excess of maximum stocks authorized to be held by the Government. In fact, the potential market outlets offered by the use of grain as raw material for industrial products would not only be capable of absorbing any intermittent surplus supplies, but actually may call for increased production of grains--the commodities which tend to be produced in excess of food and feed requirements. If it were possible, for example, to produce sufficient industrial alcohol from grain to provide a 5 percent blend for the 30 billion gallons of gasoline used annually in motor cars, the problem of recurring farm surpluses would be quickly solved; for the 1.5 billion gallons of alcohol would take out of the market 500 million bushels of corn or wheat. With an abundance of industrial alcohol for motor fuel and for the production of synthetic rubber, man could free himself from his dependence upon the fixed natural resources for the possession of which civilized nations have been destroying each other.

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In the light of these considerations, it is accordingly recommended, as a necessary concomitant of price support programs and as a means of promoting greater national independence from fixed natural resources and from foreign sources of supplies of strategic raw materials, that:

- (1) The Government actively cooperate with appropriate trade and industry groups in carrying out programs to develop new industrial uses and expanded market outlets for grain and grain products;
- (2) New uses be considered on a true "infant industry" basis; that is, burdensome surpluses of farm products be made available for these new uses at less than support prices, if there is a reasonable expectation that the new industry can eventually stand on its own feet. (While research in the field of industrial uses should be greatly expanded, demands for fostering and developing new market outlets must be carefully examined to avoid the subsidized adoption of uneconomic diversions. It is not enough to make it physically possible to produce a lot of things out of farm raw materials. The new uses must give promise to be of such value that a remunerative price can be paid for the farm products processed. There is an important need for directing increased research under the Hope-Flannagan Act to the marketing problems involved in the development of sound industrial diversion programs);



- (3) Export programs that involve subsidization be undertaken only if and to the extent that the subsidy, in terms of cents per unit, needed to equalize domestic and world prices, is less than the subsidy that would be required to divert such surpluses into domestic industrial utilization.

To implement these policies, it is recommended that:

- (4) Specific provisions be embodied in new legislation that assure the use of a fixed percentage of such funds as are made available for surplus disposal under Section 32 of the Agricultural Adjustment Act of 1938 specifically and exclusively for the development and operation of industrial diversion programs for such supplies of grain as are surplus in terms of price support legislation.

It is emphasized, however, that surplus diversion programs in connection with a program of price supports as proposed should be principally designed to correct such variations in supplies as result from excessive yields. They cannot be expected to effectively stabilize prices against variations in demand, particularly against such variations that develop into trends existing over a period of years. Such changes in demand as reflect sustained downtrends in general business activity cannot be depended upon to be offset for long by diversionary measures limited to the disposal of excess Government-held supplies. They do require more basic methods of adjustment.

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In adjusting producer operations to major declines in demand for agricultural products, chief reliance must be placed on greatly strengthened production goals programs to make the proposed scheme of flexible price supports effective. Regimentation of farm production is, in principle, rejected as being inefficient, impracticable, and in conflict with a national objective of full employment in an economy of balance and expansion. To the extent that stringent controls over producers could be made effective, they would involve the enforced partial unemployment of farmers and farm resources. It is, therefore, recommended that such measures be taken only if alternate positive measures of adjustment fail. This does not imply, however, the recommendation that acreage allotment and marketing quota provisions should be removed from future agricultural adjustment legislation. In fact, it may well be proposed to give the Department of Agriculture authority for putting acreage allotments and marketing quotas in effect on any agricultural commodity when other positive measures of adjustment fail to bring production in line with market requirements.

5. Marketing Agreements. The possibilities of using marketing agreements for effecting production adjustments without production control should be given consideration in exploring alternate courses of action in the development of programs of production goals achievement.

The success of group measures aiming at effecting such adjustments in production as may be needed to assure orderly marketing and to make price support programs workable, depends on how effectively individual efforts can be coordinated. Unless legislation affords protection against the interference of non-cooperating minorities who receive windfall benefits from such programs, the expansion of their operations will operate against the effectiveness of the programs.



Marketing agreements are essentially devices through which the Government can cooperate with producer and trade groups in bringing about needed changes and adjustments in marketing. On the one hand, they support producer and trade groups in achieving objectives desired by the majority by lending them the authority of the group to require minority compliance with majority decisions or prevent minority interference with the carrying out of programs agreed upon. At the same time, they bring these group activities under the direct surveillance of the Government as protection to the public at large against improper use of an advantage thus conferred upon a private group.

Devices of this sort obviously can serve a wide variety of objectives. Under the Marketing Agreement Act of 1937 which embodies in separate legislation the marketing agreement and order provisions of the 1935 Amendment to the Agricultural Adjustment Act of 1933, these principal types of supply control were practiced:

- (1) Limitation of total supply during the marketing season (shipping prorates, exclusion of inferior grades from shipments);
- (2) Manipulation of supply in point of time or place without affecting total supply (curtailment of shipments during specified periods); and
- (3) Diversion of part of the supply to lower uses (discriminative pricing.)

The idea of using marketing agreements as an alternate approach to the problems of production control was provided under the marketing agreement provisions of the Agricultural Adjustment Act of 1933. Ambitious proposals were made contemplating the use of marketing agreements on a

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It is the duty of every nation to contribute to the  
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The world government should be based on the principles of  
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welfare of all the people of the world.

The world government should be a permanent body, and should  
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The world government should be a democratic body, and should  
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national scope as principal programs for the attainment of parity prices of the basic crops. While none of these proposals materialized, a large number of agreements for non-basic commodities were put into effect. It soon became apparent that adjustments in supplies marketed could not support producer prices for any great length of time without control of production.

Under present legislation, the nature and scope of actions that may be effectively undertaken under marketing agreements is greatly limited,<sup>1/</sup> and orders by which compliance with the terms of a program can be enforced may be issued only for a list of commodities as specified in the Act.

6. Programs to stimulate demand. As already emphasized, programs of diversion into industrial uses may, under conditions of a high level of industrial activity, be depended upon as a market outlet for intermittent short-term surpluses that result from abnormally high yields. They would be inadequate for absorbing such surpluses in a period of industrial depression which, in turn, would give rise to additional surpluses that reflect falling demand at support levels. Since the cycles of business are international in character--due to the high degree of economic interdependence of the different countries--export outlets in periods of industrial depression tend to contract simultaneously with the falling off in domestic demand. In attempting to meet the resulting problems of adjustment, which are fundamentally beyond the scope of agricultural price support measures, reliance must be placed on comprehensive programs designed to stabilize demand rather than prices.

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<sup>1/</sup> Public Law 305 passed by the recent session of Congress, while effecting a number of changes in the system of marketing agreements and orders, does not extend the order provisions of the Act of 1937 to commodities other than those listed in the Act.



Improved nutrition holds forth much promise of vastly enlarged domestic markets for farm products. If employment can be maintained at high levels, there need be no over-all surplus of food when the urgency of foreign requirements subsides. Production of wheat, which then is certain to exceed domestic and export needs, would have to shift to increased production of feed, of which more will be needed to fully meet domestic demand for livestock products--provided full employment can be maintained. Present consumer preferences, as indicated by changes in retail prices since 1935-39, are for larger quantities of dairy, poultry and meat products relative to cereals and bakery products. The shift in production necessary to make more dairy, poultry, and meat products available to consumers appears to be the principal shift necessary to adjust to a desirable post-war pattern of production.

Under conditions of falling employment, Government programs may be desirable to stabilize demand for livestock products against declining purchasing power to consumers. In such periods the maintenance of high levels of consumption of meat and dairy and poultry products would be highly effective in providing market outlets for grains, the volume of production of which tends to be maintained in the face of falling prices. The significance and potential importance of increased consumption of livestock products is best illustrated by the fact that it takes seven pounds of grain to produce one pound of meat and about seven times as many acres to produce a billion calories of livestock products as a billion calories of food cereals.

Another important consideration is the desirability of expanded livestock farming from the standpoint of soil conservation. Livestock production, particularly dairy production, is directly based on pasture,

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which represents the most conserving use of land. As agricultural resources are improved in a system of livestock farming, the productive capacity of the land is improved, and the acreage which otherwise would be used to grow surpluses is utilized to meet the real needs of consumers as well as producers. Programs to increase demand, both domestic and export, for livestock products are in the interest of agriculture as well as the Nation as a whole, and any public funds expended for such programs either in the form of soil conservation payments designed to compensate farmers for shifting from soil-depleting to soil-conserving crops and to carry out other soil-conserving practices, or to maintain high levels of demand for livestock products, would be more effective in meeting the needs of agriculture and of the general public alike than the expenditure of public funds for the subsidization of grain exports. Measures which permit the exhaustion of our Nation's virgin soil resources in order to produce cheap exports for the benefit of other nations, are incompatible with any national program for agriculture. The justification for programs of subsidized grain exports should be limited to temporal foundations of expediency.

## VI. Export Trade Policies

1. International trade barriers. There is general agreement as to the economic advantages of expanding international trade. If each country specialized in those things which it can produce cheapest and best, sold the excess production over domestic requirements and, with the proceeds, bought what it wanted from abroad, everyone would be better off. But, for a variety of reasons, countries have put up barriers to international trade.



Post-war periods, with their uncertainties, new problems, and new productive capacities, favor increased trade restrictions, which are excused as emergency measures, but which tend to be maintained after the emergencies have passed.

Recognizing that during the unsettled period of world reconstruction that still lies ahead, conditions of emergency and actions of foreign countries will force upon the United States various measures of trade controls and manipulations, the importance of the following guiding policies is emphasized:

That such measures as are undertaken to restore foreign trade to a normal peacetime basis, under international commodity agreements or otherwise, should be consistent with the objective of developing international trade relationships that will facilitate a high level of world commerce on a basis of comparative production advantages, without leading to short-run artificial stimulants of a nature to produce after-effects disastrous to markets; or indefinitely continuing expenditure of public funds for the subsidization of consumers in foreign countries or for the special benefit of selfish interest groups, at the expense of American agriculture and industry as a whole and of the American public generally.

To overcome the difficulties that stand in the way of reducing these trade barriers, reciprocal actions have been taken to make it easier for trade to cross national boundaries to the benefit of buyers

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and sellers alike. The Reciprocal Trade Agreement Act of 1934, giving the President power to reduce tariff rates by any amount up to 50 percent in return for concessions from other countries that would benefit American exports, is an important instrument in bringing about substantial reductions in international trade barriers. Under the Act, which has been renewed several times, agreements were made with 28 countries with considerable benefits for United States exports.

2. Export subsidies. Programs of export subsidies which, in effect, subsidize competition in international trade, must be considered as economically unsound and contrary to the basic principles of international trade. At the same time, it is recognized that domestic support prices for such export crops as wheat and cotton will not be low enough to permit American wheat and cotton to compete freely in world markets. Only in the case that actual production (acreage) greatly exceeded recommended goals over a number of years, so that actual support prices and, eventually, parity prices would be lowered substantially, would unsubsidized exports become possible under the recommended price support program.

The status of wheat and cotton as export crops in highly competitive world markets introduces some complicating factors into the methods of production adjustment and disposal of excessive carryover stocks. It is not suggested that the method of administrative adjustments of support prices and their cumulative reflections in lower parity prices would solve the complex wheat and cotton export problems. However, no other single price support program for basic crops will do this either.

The fact that export subsidies as a measure of supporting farm prices through subsidizing competition in export trade will be especially



ineffective in deflationary periods, calls for a more fundamental approach to the problem of adjustment than the mere disposal of excessive carryover stocks requires. Rather, comprehensive programs are required that will combine various measures for aiding, over a period of years, the shift of higher-cost production areas into alternate lines of production, principally livestock. Such comprehensive programs, aimed at correcting basic maladjustments, would be effectively supplemented by the operation of a price support program such as proposed. It would reinforce rather than counteract the incentives to shift to alternate uses of land and labor and to lower-cost production, which would, in turn, permit more effective competition with foreign producing areas.

There is a great need for studies to determine the relative effectiveness, cost, and economic significance to the Nation as a whole of subsidized programs of exports as compared with subsidized programs of surplus diversion into domestic utilization.

The importance of over-all programs designed to maintain high levels of employment and stable export outlets is emphasized by the fact that production goals are to be determined on the assumption of a stable, relatively high, level of domestic consumption. To the extent that producers accept these goals as guides in the planning of their operations, the Government is assuming responsibility for the failure of actual domestic and foreign requirements to come up to the estimated levels of demand as reflected in the recommended production goals. If the subsequently expanded loan and purchase operations cause stocks in the hands of Government to exceed the permissible maximum amounts that may be carried over from one crop to the next, effective surplus disposal measures will have to be put into effect.

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...the eighty-fourth is the fact that the...  
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...the eighty-seventh is the fact that the...  
...the eighty-eighth is the fact that the...  
...the eighty-ninth is the fact that the...  
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...the ninety-fourth is the fact that the...  
...the ninety-fifth is the fact that the...  
...the ninety-sixth is the fact that the...  
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...the ninety-eighth is the fact that the...  
...the ninety-ninth is the fact that the...  
...the hundredth is the fact that the...

Surplus disposal measures under a program of direct price supports necessarily are of a diversionary nature and involve the application of a multiple price system. The comparative effectiveness of alternate courses of action in diverting supplies from normal channels to other uses which return less than the market price, depends on the quantities that can be diverted and the value of recovery per unit. The question as to which type of program to employ in disposing of excessive Government-held supplies must be judged in the light of these criteria.

To the extent that export demand falls short of anticipated requirements upon which production goals were based, subsidization of exports may have to be resorted to in disposing of excessive Government-held carryover stocks. It is emphasized, however, that such subsidization should not subsidize competition in export trade, nor be designed to expand the production of export commodities at the expense of the Treasury.

To provide adequate safeguards against the adoption of basically unsound measures, export subsidy programs should be undertaken only under international commodity agreements. If intergovernmental commodity agreements cannot be effected, exports may be subsidized only to offset subsidies by other exporting countries. It is accordingly recommended that statutory restrictions on the extent and form of such programs be embodied in the writing of new legislation.

The question as to whether programs of export subsidization, which are self-financing, would be compatible with a price support program as proposed here cannot be determined without further study. Under an export certificate plan, increased exports may be taken into account in determining production goals, since producers and not the United States Treasury would be subsidizing foreign consumers. If international commodity agree-



ments could not be implemented that provide for subsidized exports on a non-competitive basis, an export-certificate plan would enable United States producers to effectively compete with other exporting countries, without the taxpayer having to bear the losses on exports. Producers would merely operate a program of discriminatory marketing. The fact, however, that the cost of the program is borne by producers does not make the program more efficient. The beneficial effects derived by producers from relatively high domestic prices would, in the long run, be nullified by the widening spread between domestic and world prices resulting from the increased pressure on foreign markets and competition among exporting countries. Furthermore, any consumer benefits resulting from declining production costs, which, under a price support program as proposed would be reflected in lower support and market prices, would under the operation of an export certificate plan be conferred upon foreign consumers.

Another, more basic argument may be advanced against such programs. Since the successful operation of a two-price system is essentially limited to the discriminatory marketing of temporary surpluses, and since the stabilization of farm prices against such surpluses, to the extent that they reflect uncontrollable variations in production, is recognized as being in the public interest, the cost of operating programs to this end should not be charged to producers.

3. Expedient and permanent policies. With the existing increased dependence of foreign countries upon food imports from the United States to continue for some time, our farmers have an important interest in the development of international trade policies which provide a sound, permanent basis for a substantial proportion of these exports. As long as loans are made available to overcome foreign exchange difficulties in financing



exports, our farmers have reason to be concerned over future developments in agricultural export trade.

The need for replacing loans by reciprocally advantageous international trade agreements that provide importing countries with the foreign exchange needed to pay for needed food imports, is not only an issue of national concern, but of far-reaching significance to American agriculture. There are reasons for believing that the huge European borrowings from the United States will impede rather than promote the restoration of normal export outlets for American farm products. The net-food-deficit countries will endeavor by stimulation of intensive and extensive agriculture to reduce their dependence upon imported supplies. Not only will the trend towards autarchy among the countries which are net importers of food and feed tend to reduce their imports, it will also bring about shifts in the sources from which they are arrived. Preference will be given to imports which can be paid for in currency more readily available, and the pattern of trade will become a reflection of the relation between debtor and creditor nations.

Rising prices and the necessity for securing imports from the high-priced dollar area aggravate the problem as to the maintenance of large exports of wheat on a commercial basis. The impact of rising prices on the foreign exchange position of importing countries has been far greater than the effects of the increased volume of import needs. In 1947, Europe will import approximately 13.3 million tons of bread grains as compared with pre-war imports averaging 9.4 million tons a year. Expenditures in 1947 for imported grain and grain products from the United States and Argentina alone are estimated at \$1,200,000,000, or six times the cost of such products imported from these countries in 1939.



The so widely heralded possibilities of a vast resurgence of international trade, stimulated by new types of international trade organizations and an awakening of the peoples of the world to the economic disadvantages of narrow nationalism, will be found, in reality, to call for sacrifices on the part of exporting countries, which, in effect, will be no different than the acceptance on the part of producers of such price levels as will lead to expanded world takings of American farm products.

The Food and Agriculture Organization estimates that within the next 15 years world production of cereals will have to be expanded 20 percent; meat 45 percent; milk 100 percent; and fruits and vegetables 150 percent. However, the fact must not be lost sight of that these world food goals are arrived at on the basis of nutritional needs and not on the basis of prospective market demands. Despite the long-sustained need for maximum production, United States farmers may have to prepare to moderate their production programs to less than maximum output, as the world food crisis recedes to a commercial basis of international trade.

Economic incentives may have to be provided to prevent European countries from reverting to a trend toward self-sufficiency with regard to grains. The desirability of increased livestock production on the basis of expanded feed grain production and correspondingly increased importations of food grains should be considered in programs designed to give European agriculture altered incentives and new objectives.

The shape and content of the Marshall Plan are still in the process of formulation. The extent, timing, and form which United States assistance may take, are not yet known. Developments in this connection cannot help but greatly affect the future of American agriculture. Measures to lessen the impulse toward food self-sufficiency and, instead, to stimu-

The first thing I noticed when I stepped out of the car was the cold. It was a sharp contrast to the warm blanket of the car's interior. I shivered slightly, pulling my coat tighter around me. The air was crisp and clear, a welcome change from the stuffy atmosphere of the car.

I walked towards the entrance of the building, my steps echoing on the wet pavement. The rain had just stopped, leaving the ground glistening under the streetlights. The building was a grand structure, its architecture a blend of classical and modern styles. The entrance was flanked by two large columns, topped with ornate capitals. Above the entrance, a large clock face was visible, its hands pointing to a time I didn't quite know.

I pushed open the heavy door, stepping into a vast, open space. The room was filled with people, some standing in groups, others walking alone. The air was filled with a low hum of conversation and the clatter of footsteps. I felt a sense of being part of something big, something important.

I looked around, trying to find a familiar face. My eyes scanned the crowd, but I found nothing. I felt a little lost, a little unsure. I was in a new place, surrounded by new people. I needed to find my way, to find my place.

I took a deep breath, steeling myself for what was to come. I was here for a reason, and I was going to make the most of it. I was going to find my way, no matter what it took.

I walked forward, my steps confident and sure. I was going to make it. I was going to find my place. I was going to make a difference.

The room was filled with people, some standing in groups, others walking alone. The air was filled with a low hum of conversation and the clatter of footsteps. I felt a sense of being part of something big, something important.

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late return to increased industrialization should be particularly effective in the years ahead, which are essentially of a transitory nature. Among such measures gradual substitution of subsidized exports for exports financed by loans should encourage the restoration of international trade along the lines of comparative advantage. Such subsidization of food exports would be justifiable on the same grounds as the subsidization of infant domestic industries with supplies of grain at lower than support prices, provided that the particular industry gives reasonable promise of eventually being able to stand on its own feet.

Since the specific objective of such subsidies would be to shift the financing of exports from a basis of temporary loans or outright gifts to a permanent two-way trade, the opportune timing of such programs is essential to their success. Their early implementation is recommended as an expedient measure towards reconverting export trade to a peacetime basis and, needless to say, not as a policy to be pursued under conditions of shortages and high prices.

The paradox of hunger in the midst of plenty, which may be with us again, will not be primarily a problem of undisposable agricultural surpluses in one country in the face of unsatisfied needs for food in another, but a reflection of the fact that the peoples of the deficiency countries cannot exchange the products of their labor for the surplus food of other countries. The explanation of nutritional suffering in the midst of plenty rests on the disequilibrium between trading countries of the world.

Anticipating the reappearance of agricultural surpluses may seem unrealistic or remote at a time when the world is starving for food. While it is recognized that the need to increase production and exports

The first part of the report deals with the general situation of the country. It is a very interesting and informative study of the country's development. The second part of the report deals with the specific details of the country's development. It is a very detailed and thorough study of the country's development. The third part of the report deals with the specific details of the country's development. It is a very detailed and thorough study of the country's development.

The fourth part of the report deals with the specific details of the country's development. It is a very detailed and thorough study of the country's development. The fifth part of the report deals with the specific details of the country's development. It is a very detailed and thorough study of the country's development. The sixth part of the report deals with the specific details of the country's development. It is a very detailed and thorough study of the country's development.

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The tenth part of the report deals with the specific details of the country's development. It is a very detailed and thorough study of the country's development. The eleventh part of the report deals with the specific details of the country's development. It is a very detailed and thorough study of the country's development. The twelfth part of the report deals with the specific details of the country's development. It is a very detailed and thorough study of the country's development.

of food will demand undiminished attention for an indefinite period to come, the essentially transitory nature of these problems tends to be ignored in the light of the critical urgency of current requirements. The question as to the economic policies upon which future agricultural price legislation should rest, must concern itself with the long-time problems which United States agriculture will be facing. And these problems will largely arise from the inherent tendency of our agricultural production to overtake the rate of increase in consumption.

#### VII. Advantages of Proposed Price Support Program

There is general agreement on the broad aims of agricultural policy. Agricultural policy should be designed to promote the efficient use of our agricultural resources in producing a balanced abundance of agricultural commodities; to help bring about orderly adjustments in agricultural production to changing market conditions; to assure a level of farm income which will permit an improving standard of living on farms; and to attain these objectives in a democratic manner.

The price support proposal set forth here is designed precisely to meet these aims. It provides a positive basis for production adjustments, while, at the same time, insuring producers of individual commodities equitable price relationships commensurate with present-day cost of producing the quantities needed; it provides farmers with an opportunity for efficiency which they do not possess under a program of price rigidities and production control; it assures farmers a stable ratio of exchange of the products of their labor against the products of other groups; it helps develop new uses and expanded market outlets and provide alternate opportunities to farmers now producing the com-



modities that will be less needed when the urgency of foreign food requirements subsides; and it obviates the need for special legislation to extend the basic price protection afforded producers under the Steagall Amendment while readjusting their operations to normal peacetime market outlets.

Enactment of legislation embodying the price support policies and provisions as proposed here would, in summary, benefit:

- (1) Farmers by removing obstacles to production shifts that eventually are unavoidable, without sacrificing the concept of parity as objective of price policy;
- (2) The public by making agricultural production more responsive to the actual needs of consumers, by passing on the benefits of increased production efficiencies, and by preventing the diversion of socially valuable resources to the production of goods that cannot be consumed; and
- (3) The Government by averting the accumulation of burdensome surpluses, and relieving it of support obligations, the fulfillment of which would defeat their very purpose.

R.E.Patzig:imw  
October, 1947



TABLE III

## PERTINENT AGRICULTURAL AND INDUSTRIAL INDEXES

	(1)	(2)	(3)	(4)	(5)	(6)
Years	: Volume : :Agricul.: :Produc.	: Volume : :Industr.: :Product.	:Agricultur.: : Prices :Aug. 1909-	:Wholesale: :Commodity: : Prices	: Acreage : Har- :Planted:vested	: Yields :Per Acre :Harvested
Base Period	: 1935-39:	: 1935-39:	: July 1914	: 1910-14	: 1924-33:	: 1924-32
1909	: 79 :	:	:	:	:	:
1910	: 79 :	:	102	: 103 :	:	:
1911	: 83 :	:	94	: 95 :	:	:
1912	: 85 :	:	99	: 101 :	:	:
1913	: 81 :	:	102	: 102 :	:	:
1914	: 86 :	:	101	: 99 :	:	:
1915	: 86 :	:	99	: 102 :	:	:
1916	: 83 :	:	118	: 125 :	:	:
1917	: 86 :	:	175	: 172 :	:	:
1918	: 90 :	:	204	: 192 :	:	:
1919	: 91 :	72	215	: 202 :	: 101.0 :	99.0
1920	: 92 :	75	211	: 225 :	: 99.6 :	108.8
1921	: 83 :	58	124	: 142 :	: 99.5 :	92.4
1922	: 91 :	73	132	: 141 :	: 98.3 :	99.7
1923	: 94 :	88	143	: 147 :	: 98.1 :	99.4
1924	: 98 :	82	143	: 143 :	96.7 : 98.4 :	98.3
1925	: 97 :	90	156	: 151 :	99.6 : 99.6 :	100.1
1926	: 100 :	96	146	: 146 :	98.3 : 99.3 :	102.7
1927	: 98 :	95	142	: 139 :	98.1 : 99.2 :	101.7
1928	: 102 :	99	151	: 141 :	100.6 : 100.0 :	104.3
1929	: 99 :	110	149	: 139 :	99.4 : 100.5 :	97.8
1930	: 98 :	91	128	: 126 :	101.1 : 101.8 :	92.9
1931	: 102 :	75	90	: 107 :	101.4 : 100.7 :	102.9
1932	: 96 :	58	68	: 95 :	102.8 : 102.4 :	99.7
1933	: 96 :	69	72	: 96 :	102.1 : 93.6 :	94.3
1934	: 93 :	75	90	: 109 :	92.8 : 83.4 :	81.1
1935	: 91 :	87	109	: 117 :	99.0 : 95.1 :	101.2
1936	: 94 :	103	114	: 118 :	98.6 : 88.8 :	87.6
1937	: 106 :	113	122	: 126 :	99.4 : 95.8 :	118.1
1938	: 103 :	89	97	: 115 :	97.0 : 95.8 :	113.9
1939	: 106 :	109	95	: 113 :	93.8 : 91.1 :	114.8
1940	: 110 :	125	100	: 115 :	95.2 : 93.8 :	120.1
1941	: 113 :	162	124	: 127 :	95.1 : 94.9 :	121.6
1942	: 124 :	199	159	: 144 :	96.2 : 96.0 :	136.2
1943	: 128 :	239	192	: 151 :	98.9 : 98.4 :	124.1
1944	: 136 :	235	195	: 152 :	99.9 : 99.7 :	133.3
1945	: 133 :	203	202	: 155 :	97.7 : 98.0 :	129.7
1946	: 136 :	p 170	233	: 177 :	97.3 : 97.8 :	134.2
1947	: 137 :	-	-	: - :	97.9 : 98.3 :	-
1947 June:	-	p 184	271	: p 216 :	- : - :	-
July:	-	-	276	: - :	- : - :	-

Source - p - preliminary

(1) 1909-39 - Agri. Stat. '46'; 1940-47 - Farm Income Situation, June-July '47.

(2) Federal Reserve Bulletin, August 1947.

(3) Index numbers of prices received by farmers, 1910-47-B.A.E. June 1947.

(4) 1910-45 Agr. Stat. 1946 - BLS series 1926=100 converted to 1910-14 cal. year base by dividing by 68.5.

(5) Compiled from Crop Reporting Board acreage data.

(6) 1919-28 Crops &amp; Mkts. Dec. 1941. 1929-46 Crop Prod. annual summary 1946 BAE

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